



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

Financial Statements

June 30, 2016 and 2015

(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, 2016

**Officers**

|                        |  |
|------------------------|--|
| Ms. Sandra Begay       | Chair                                    |
| Ms. Terri Cole         | Vice Chair                               |
| Dr. Joseph L. Cecchi   | Vice Chair                               |
| Dr. John H. Stichman   | Secretary/Treasurer                      |
| Ms. Elizabeth Kuuttila | CEO & Chief Economic Development Officer |

**Committee Chairs**

|                       |   |
|-----------------------|---|
| Ms. Sandra Begay      | 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. Thomas Clifford       |
| 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   | Mr. Terry Laudick         |
| Ms. Cindy McGill        | Dr. Gabriel P. Lopez      |
| Dr. Gregg L. Mayer      | Mr. Robert H. Nath        |
| Dr. Paul B. Roth        | Dr. Eric R. Prossnitz     |
| Dr. John H. Stichman    | Mr. Pedro F. Suarez       |
| Mr. Gary Tonjes         | Mr. Chuck I. Wellborn     |
| Dr. Craig G. White      | Mr. J.E. (Gene) Gallegos  |
| Dr. Alton D. Romig, Jr. | Ms. Kimberly C. Sawyer    |
| Dr. Sang M. Han         | Mr. Fred Mondragon        |
| Dr. Pope L. Moseley     | Dr. Mansoor Sheik-Bahae   |
| Dr. Michael J. Dougher  |                           |



**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. 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, as of and for the years ended June 30, 2016 and 2015, 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 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, 2016 and 2015, 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 2 to the financial statements, effective July 1, 2015, STC.UNM adopted *Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application*. Our opinion is 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 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 9, 2016 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 9, 2016

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

Management's Discussion and Analysis

June 30, 2016 and 2015

(unaudited)

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, 2016, 2015, and 2014.

**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>2016</b>    | <b>2015</b> | <b>2014</b> |
| Current assets                          | \$ 2,765,855   | 2,042,028   | 6,407,071   |
| Capital assets, net                     | 21,047         | 7,012,926   | 32,688      |
| Current liabilities                     | 1,944,058      | 1,313,955   | 5,947,104   |
| Total operating revenues                | 4,918,045      | 12,623,595  | 3,781,945   |
| Total operating expenses                | 4,652,651      | 4,898,074   | 3,816,443   |
| Total nonoperating revenue and expenses | (7,174,159)    | (480,918)   | 105,848     |
| Change in net position                  | (6,908,765)    | 7,244,603   | 71,350      |
| Net position, end of year               | 843,288        | 7,752,053   | 507,450     |

**Financial Position**

The Corporation's current assets increased by \$723,827 as of June 30, 2016 to \$2,765,855 compared to \$2,042,028 as of June 30, 2015; and 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. The increase from fiscal year 2015 to fiscal year 2016 was primarily due to the activity level in the accounts receivable related to various license agreements from license companies, specifically IntelliCyt Corporation. IntelliCyt was acquired via a merger agreement by another company in fiscal year 2016, at which time the stock held by STC was converted to the right to receive cash proceeds in the amount of \$810,920. Capital asset purchases during fiscal years 2016, 2015, and 2014 were \$8,210, \$7,094,480, and \$4,663, respectively, for real estate related to Innovate ABQ, software, leasehold improvements, computer equipment, and furniture. Current liabilities increased by \$630,103 as of June 30, 2016 to \$1,944,058 compared to \$1,313,955 as of June 30, 2015; and decreased by \$4,633,149 as of June 30, 2015 to \$1,313,955 compared to \$5,947,104 as of June 30, 2014. The change from fiscal year 2015 to fiscal year 2016 is primarily attributable to an increase in accrued royalty sharing of \$424,963 and an increase in accrued expenses of \$139,844 due to the timing of payments made by the Corporation as of year-end.

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

Management's Discussion and Analysis

June 30, 2016 and 2015

(unaudited)

***Capital Assets***

During the years ended June 30, 2016, 2015, and 2014, the Corporation acquired \$8,210, \$7,094,480, and \$4,663, respectively, in capital assets, and had depreciation expense of \$51,411, \$114,243, and \$21,843, respectively. During fiscal year 2016, the Corporation transferred \$6,948,678 of capital assets, net to Innovate ABQ.

***Comparison of Fiscal 2016 to Fiscal 2015 Results of Operations***

Total operating revenue for fiscal year 2016 of \$4,918,045 decreased from \$12,623,595 for fiscal year 2015, a net decrease of \$7,705,550. The majority of the decrease is directly attributable to the revenue recognized in fiscal year 2015 related to the Innovate ABQ project in the amount of \$7,798,048. Only \$250,000 of revenue related to the Innovate ABQ project was recognized by STC in the current fiscal year, and the related transfer of Innovate ABQ assets was completed November 2015. Additionally, license revenue decreased by \$116,271 in fiscal year 2016 compared to fiscal year 2015.

Total operating expenses decreased by a net of \$245,423 for fiscal year 2016 compared to fiscal year 2015. Innovate ABQ-related expenses decreased by \$444,391 from the prior year due the transfer of Innovate ABQ accounting responsibility from STC to Innovate ABQ, Inc. in November of 2015. Patent cost expenses increased by \$47,137 from prior fiscal year directly attributable to higher licensee-driven patent activities. Licensing distributions expenses increased by \$118,069 from the prior year due to the timing of payment by the Corporation as of year-end.

***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 cost expenses increased by \$117,754 from the prior fiscal year, which was directly attributable to higher licensee-driven patent activities. Licensing distributions expenses increased by \$312,037 from the prior year due to an increase in licensing and royalties revenue earned in fiscal year 2015 compared to fiscal year 2014. General and administrative expenses increased from the prior fiscal year primarily due to Innovate ABQ-related property management and general expenses incurred of \$594,149.

***Economic Conditions***

The uncertainty of the general economic condition impacts university technology transfer offices such as the Corporation. 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.

**STC.UNM**  
(A Component Unit of the University of New Mexico)  
Management's Discussion and Analysis  
June 30, 2016 and 2015  
(unaudited)

**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, New Mexico 87106.



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

Statement of Net Position

June 30, 2016 and 2015

| <b>Assets</b>                       | <b>2016</b>  | <b>2015</b> |
|-------------------------------------|--------------|-------------|
| Current assets:                     |              |             |
| Cash and cash equivalents           | \$ 1,114,568 | 1,131,066   |
| Restricted cash                     | 100,000      | 133,907     |
| Investments                         | 623,350      | 637,162     |
| Accounts receivable                 | 927,937      | 139,893     |
| Total current assets                | 2,765,855    | 2,042,028   |
| Capital assets:                     |              |             |
| Furniture and equipment             | 265,072      | 275,407     |
| Land                                | —            | 3,957,684   |
| Building                            | —            | 3,133,320   |
| Accumulated depreciation            | (244,025)    | (353,485)   |
| Total capital assets, net           | 21,047       | 7,012,926   |
| Investment in stock                 | 444          | 11,054      |
| Total other assets                  | 444          | 11,054      |
| Total assets                        | 2,787,346    | 9,066,008   |
| <b>Liabilities and Net Position</b> |              |             |
| Current liabilities:                |              |             |
| Accounts payable                    | 190,718      | 236,749     |
| Due to University of New Mexico     | 463,834      | 352,507     |
| Accrued royalty sharing             | 1,022,124    | 597,161     |
| Accrued expenses                    | 267,382      | 127,538     |
| Total current liabilities           | 1,944,058    | 1,313,955   |
| Net position:                       |              |             |
| Unrestricted                        | 822,241      | 739,127     |
| Invested in capital assets          | 21,047       | 7,012,926   |
| Total net position                  | 843,288      | 7,752,053   |
| Total liabilities and net position  | \$ 2,787,346 | 9,066,008   |

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, 2016 and 2015

|  | <u>2016</u>        | <u>2015</u>       |
|--|--------------------|-------------------|
| Operating revenues:                            |                    |                   |
| Operational funding from UNM                   | \$ 794,000         | 794,000           |
| Patent funding from UNM                        | 952,000            | 952,000           |
| Economic development funding from UNM          | 288,000            | 288,000           |
| 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                                    | 250,000            | 1,498,048         |
| Patent cost reimbursement                      | 623,677            | 686,256           |
| Licensing and royalties                        | 1,927,020          | 2,043,291         |
| Other  | 83,348             | 49,500            |
| Total operating revenue                        | <u>4,918,045</u>   | <u>12,623,595</u> |
| Operating expenses:                            |                    |                   |
| Patent costs incurred                          | 1,657,259          | 1,610,122         |
| Licensing distributions                        | 1,080,607          | 962,538           |
| Depreciation                                   | 51,411             | 114,243           |
| Economic development initiative                | 288,000            | 288,000           |
| General and administrative                     | 1,425,616          | 1,329,022         |
| Innovate ABQ expenses                          | 149,758            | 594,149           |
| Total operating expenses                       | <u>4,652,651</u>   | <u>4,898,074</u>  |
| Operating income                               | <u>265,394</u>     | <u>7,725,521</u>  |
| Nonoperating revenue and expenses:             |                    |                   |
| Interest income                                | 23,973             | 14,212            |
| Rental income                                  | 53,406             | 90,245            |
| Loss on investment                             | (34,025)           | (547,293)         |
| Interest expense                               | —                  | (38,082)          |
| Contribution to Innovate ABQ                   | (7,217,513)        | —                 |
| Total nonoperating revenue and expenses        | <u>(7,174,159)</u> | <u>(480,918)</u>  |
| Change in net position                         | <u>(6,908,765)</u> | <u>7,244,603</u>  |
| Net position, beginning of year                | <u>7,752,053</u>   | <u>507,450</u>    |
| Net position, end of year                      | <u>\$ 843,288</u>  | <u>7,752,053</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, 2016 and 2015

|  | <b>2016</b>    | <b>2015</b> |
|--|----------------|-------------|
| Cash flows from operating activities:  |                |             |
| Payments to suppliers and employees  | \$ (1,889,186) | (2,191,487) |
| Receipts received for Innovate ABQ   | 250,000        | 3,300,000   |
| 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                                      | 299,960        | 574,000     |
| Payment to start up companies for co-investment funding                          | (199,960)      | (574,000)   |
| Receipts for economic development initiatives funding revenue from UNM           | 288,000        | 288,000     |
| Receipts for elevator pitch competition funding from UNM                         | —              | 12,500      |
| Receipts from sponsorships and other   | 80,845         | 49,500      |
| Payment for patent costs incurred  | (1,642,353)    | (1,711,018) |
| Receipts for patent cost reimbursements  | 608,883        | 774,707     |
| Receipts from licensees  | 1,091,891      | 1,167,073   |
| Payment for licensing distribution expense                                       | (544,305)      | (1,050,446) |
| Net cash provided by operating activities  | 89,775         | 2,384,829   |
| 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  | (8,210)        | (7,094,480) |
| Transfer to Innovate ABQ   | (229,631)      | —           |
| Net cash used by capital and related financing activities                        | (237,841)      | (7,132,562) |
| Cash flows from investing activities:  |                |             |
| Investments purchased  | (428,921)      | (142,888)   |
| Investments proceeds   | 414,656        | 136,004     |
| Interest received  | 23,975         | 14,211      |
| Proceeds from sale of investment securities from licensee                        | 35,007         | 649,543     |
| Rental income received   | 52,944         | 90,145      |
| Net cash provided by investing activities  | 97,661         | 747,015     |
| Net decrease in cash and cash equivalents  | (50,405)       | (4,000,718) |
| Cash and cash equivalents, beginning of year                                     | 1,264,973      | 5,265,691   |
| Cash and cash equivalents, end of year   | \$ 1,214,568   | 1,264,973   |
| Reconciliation of operating income to net cash provided by operating activities: |                |             |
| Operating income   | \$ 265,394     | 7,725,521   |
| Adjustments to reconcile to net cash provided by operating activities:           |                |             |
| Depreciation   | 51,412         | 114,243     |
| Stock investment income received in exchange for technology                      | (21)           | (64)        |
| Stock investment received from licensee  | (29,865)       | (1,185,138) |
| Expense recognized by Innovate ABQ   | (9,243)        | —           |
| Grant receivable transferred to Innovate ABQ                                     | (29,961)       | —           |
| Changes in operating assets and liabilities:                                     |                |             |
| Accounts receivable  | (788,044)      | 363,416     |
| Other assets   | —              | —           |
| Accounts payable   | (46,031)       | (81,677)    |
| Due to UNM   | 111,327        | 83,039      |
| Accrued royalty sharing  | 424,963        | (171,195)   |
| Accrued expenses and other   | 139,844        | 4,771       |
| Advance funding received   | —              | (4,468,087) |
| Net cash provided by operating activities  | \$ 89,775      | 2,384,829   |
| Noncash item:  |                |             |
| Capital asset contribution to Innovate ABQ                                       | \$ (6,948,678) | —           |

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2016 and 2015

**(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. On December 14, 2004, UNM and STC.UNM entered into a revised Memorandum of Agreement (MOA) containing the expectations and performance obligations UNM is seeking from the Corporation. The MOA may be terminated at any time by either party, at which point all property of the Corporation shall be transferred to UNM or other successor organization designated by resolution of the UNM Board of Regents. 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 comply with the accounting disclosure and reporting requirements under Governmental Accounting Standards Board (GASB) pronouncements, as STC.UNM meets the criteria of a governmental entity.

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**

During the year ended June 30, 2016, STC.UNM adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

During the year ended June 30, 2016, STC.UNM adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76) that supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 identifies the hierarchy of general accepted accounting principles for state and local governments.

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

Notes to Financial Statements

June 30, 2016 and 2015

**(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 held.

As of June 30, 2016, the Corporation has \$100,000 in restricted cash, which was received from the UNM Foundation for a co-investment fund in a startup company. The co-investment was approved, but not distributed as of year-end.

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, 2016 and 2015 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**  
(A Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2016 and 2015

**(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 \$924,692 and \$105,307 as of June 30, 2016 and 2015, 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**  
(A Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2016 and 2015

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

|   | <b>2016</b>  | <b>2015</b> |
|---|--------------|-------------|
| Cash and cash equivalents:                |              |             |
| Cash on deposit at financial institution  | \$ 1,203,762 | 1,257,765   |
| Cash equivalents not considered deposits: |              |             |
| Money market accounts                     | 10,706       | 7,108       |
| Petty                                     | 100          | 100         |
| Total cash and cash equivalents           | \$ 1,214,568 | 1,264,973   |
| Investments:                              |              |             |
| Mutual funds:                             |              |             |
| Domestic fixed income                     | \$ 119,719   | 81,482      |
| International fixed income                | 13,492       | 29,038      |
| Domestic equity                           | 284,581      | 253,305     |
| International equity                      | 74,157       | 139,479     |
| Real estate                               | 72,289       | 70,002      |
| Long/short equity                         | 52,745       | 51,753      |
| Merger arbitrage                          | 6,367        | 12,103      |
| Total investments                         | \$ 623,350   | 637,162     |

**(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>2016</b>  | <b>2015</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   | 1,113,172    | 1,236,465   |
| Total bank balance   | \$ 1,363,172 | 1,486,465   |

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

Notes to Financial Statements

June 30, 2016 and 2015

The following schedule details the Corporation's deposit accounts at June 30, 2016:

| <u>Bank name/<br/>account</u> | <u>Account<br/>type</u> | <u>Financial<br/>statement<br/>balance</u> | <u>Outstanding<br/>checks</u> | <u>Bank<br/>balance</u> |
|-------------------------------|-------------------------|--|-------------------------------|-------------------------|
| Bank of the west:             |                         |  |                               |                         |
| Operating                     | Checking                | \$ 1,203,762                               | 159,410                       | 1,363,172               |
| Innovate                      | Checking                | —  | —                             | —                       |
| Less FDIC insurance           |                         |  |                               | (250,000)               |
| Total                         |                         |  |                               | <u>\$ 1,113,172</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, 2016 and 2015

The Corporation had the following investments and maturities at June 30, 2016 and 2015.

| Investment type                 | June 30, 2016     |   |               |               |               |               |
|---------------------------------|-------------------|---|---------------|---------------|---------------|---------------|
|                                 | Fair value        | Weighted average investment maturities (in years) |               |               |               |               |
|                                 |                   | Less than 1                                       | 1 – 5         | 6 – 10        | More than 10  | Not available |
| Fixed income:                   |                   |   |               |               |               |               |
| Domestic bond mutual funds      | \$ 119,719        | —   | 30,478        | 63,608        | 19,543        | 6,090         |
| International bond mutual funds | 13,492            | —   | —             | —             | —             | 13,492        |
|                                 | <u>\$ 133,211</u> | <u>—</u>  | <u>30,478</u> | <u>63,608</u> | <u>19,543</u> | <u>19,582</u> |

| Investment type                 | June 30, 2015     |   |               |               |              |               |
|---------------------------------|-------------------|---|---------------|---------------|--------------|---------------|
|                                 | Fair value        | Weighted average investment maturities (in years) |               |               |              |               |
|                                 |                   | Less than 1                                       | 1 – 5         | 6 – 10        | More than 10 | Not available |
| 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> |

The following tables provide information on the credit ratings associated with the Corporation's investments in debt securities at June 30, 2016 and 2015.

| Investment type                 | June 30, 2016     |               |              |               |               |               |               |              |              |               |
|---------------------------------|-------------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------|
|                                 | Fair value        | AAA           | AA           | A             | BBB           | BB            | B             | Below B      | NR           | Not available |
| Fixed income:                   |                   |               |              |               |               |               |               |              |              |               |
| Domestic bond mutual funds      | \$ 119,719        | 51,303        | 5,905        | 11,246        | 21,852        | 9,852         | 9,859         | 2,029        | 7,668        | 5             |
| International bond mutual funds | 13,492            | 351           | 49           | 300           | 4,038         | 3,270         | 2,659         | 1,445        | 1,380        | —             |
|                                 | <u>\$ 133,211</u> | <u>51,654</u> | <u>5,954</u> | <u>11,546</u> | <u>25,890</u> | <u>13,122</u> | <u>12,518</u> | <u>3,474</u> | <u>9,048</u> | <u>5</u>      |

| Investment type                 | June 30, 2015     |               |              |               |               |               |               |              |              |               |
|---------------------------------|-------------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------|
|                                 | Fair value        | AAA           | AA           | A             | BBB           | BB            | B             | Below B      | NR           | Not available |
| 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>      |

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Notes to Financial Statements

June 30, 2016 and 2015

**(d) Foreign Currency Risk**

Foreign currency risk is the 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.

**(e) Fair Value Measurement**

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- *Level 1* inputs are quoted prices (unadjusted) for identical assets in active markets, accessible at the measurement date. Level 1 inputs include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.
- *Level 2* inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active.
- *Level 3* inputs are unobservable inputs for an asset.

Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers, but the Corporation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

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Notes to Financial Statements

June 30, 2016 and 2015

The Corporation has the following recurring fair value measurements as of June 30, 2016:

|                            | <b>Fair value</b> | <b>Quote prices in active markets for identical assets (Level 1)</b> | <b>Significant other observable inputs (Level 2)</b> | <b>Significant unobservable inputs (Level 3)</b> |
|----------------------------|-------------------|--|--|--|
| Investments:               |                   |  |  |  |
| Mutual funds:              |                   |  |  |  |
| Domestic fixed income      | \$ 119,719        | 119,719  | —  | —  |
| International fixed income | 13,492            | 13,492   | —  | —  |
| Domestic equity            | 284,581           | 284,581  | —  | —  |
| International equity       | 74,157            | 74,157   | —  | —  |
| Real estate                | 72,289            | 72,289   | —  | —  |
| Long/short equity          | 52,745            | 52,745   | —  | —  |
| Merger arbitrage           | 6,367             | 6,367  | —  | —  |
| Total investments          | <u>\$ 623,350</u> | <u>623,350</u>   | <u>—</u>   | <u>—</u>   |

The Corporation has the following recurring fair value measurements as of June 30, 2015:

|                            | <b>Fair value</b> | <b>Quote prices in active markets for identical assets (Level 1)</b> | <b>Significant other observable inputs (Level 2)</b> | <b>Significant unobservable inputs (Level 3)</b> |
|----------------------------|-------------------|--|--|--|
| Investments:               |                   |  |  |  |
| Mutual funds:              |                   |  |  |  |
| Domestic fixed income      | \$ 81,482         | 81,482   | —  | —  |
| International fixed income | 29,038            | 29,038   | —  | —  |
| Domestic equity            | 253,305           | 253,305  | —  | —  |
| International equity       | 139,479           | 139,479  | —  | —  |
| Real estate                | 70,002            | 70,002   | —  | —  |
| Long/short equity          | 51,753            | 51,753   | —  | —  |
| Merger arbitrage           | 12,103            | 12,103   | —  | —  |
| Total investments          | <u>\$ 637,162</u> | <u>637,162</u>   | <u>—</u>   | <u>—</u>   |

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

Notes to Financial Statements

June 30, 2016 and 2015

**(3) Capital Assets**

|                                   |    | <b>2016</b>                  |                  |                  |                           |
|-----------------------------------|----|------------------------------|------------------|------------------|---------------------------|
|                                   |    | <b>Beginning<br/>balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>balance</b> |
| Land                              | \$ | 3,957,684                    | —                | (3,957,684)      | —                         |
| Capital assets being depreciated: |    |                              |                  |                  |                           |
| Furniture and equipment           |    | 275,408                      | 8,210            | (18,546)         | 265,072                   |
| Buildings                         |    | 3,133,320                    | —                | (3,133,320)      | —                         |
| Accumulated depreciation          |    | (353,486)                    | (51,412)         | 160,873          | (244,025)                 |
| Capital assets, net               | \$ | 7,012,926                    | (43,202)         | (6,948,677)      | 21,047                    |
|                                   |    | <b>2015</b>                  |                  |                  |                           |
|                                   |    | <b>Beginning<br/>balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>balance</b> |
| 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                 |

**(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 July 1, 2016 to further extend the term of the lease until June 30, 2017. Additionally, effective September 10, 2015, the Corporation entered into a separate occupancy agreement with UNM for lease of office facilities through September 2016. This agreement was amended on October 1, 2016 to extend the term of the lease through July 2017. Future minimum payments required under the occupancy agreements are as follows:

|                           |    |        |
|---------------------------|----|--------|
| Year ending June 30, 2017 | \$ | 98,626 |
|---------------------------|----|--------|

Rent expense in fiscal years 2016 and 2015 was \$83,530 and \$60,092, respectively.

**(b) Insurance Coverage**

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; 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.

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

Notes to Financial Statements

June 30, 2016 and 2015

**(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 fiscal years 2016 and 2015, the Corporation matched employee contributions below 7.975% commensurately; employee contributions that equaled or exceeded 7.9575% were matched up to 12.4% of the employee's base salary. There is no waiting period for vesting. The Corporation's contributions were \$62,756 and \$94,752 in fiscal years 2016 and 2015, respectively. Employee contributions were \$75,453 and \$75,440 in fiscal years 2016 and 2015, 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 equity incentive award based on performance. Equity incentive awards are paid to eligible employees upon the Corporation's liquidation of stock held. Cash bonuses awarded to employees were \$45,644 and \$35,210 in fiscal years 2016 and 2015, 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.

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

Notes to Financial Statements

June 30, 2016 and 2015

**(8) Co-Investment Fund**

Based on a working relationship with the UNM Foundation, a related party, 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 (the Policy) to set aside \$1,000,000 for their investment in private start-up 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 2016, the Corporation approved four proposals from start-up companies and provided for co-investments totaling \$399,960 based on direct pass-through funding from the UNM Foundation to STC in the amount of \$399,960 per terms of the policy. One of the four approved proposals in the amount of \$100,000 fell through and the money was returned by the Corporation back to the UNM Foundation. STC has a co-investment liability related to one of the four approved proposals in the amount of \$100,000 as the funding was received from UNM Foundation but not yet paid to the start-up company as of June 30, 2016. This is recorded as accounts payable on the statement of net position.

**(9) IntelliCyt Corporation**

During fiscal year 2016, in connection with the merger of IntelliCyt Corporation, a STC licensee, with Sartorius North America, Inc., the Corporation's stock in IntelliCyt was converted to the right to receive the cash proceeds. The merger settled in June 2016 and the Corporation recognized accounts receivable and licensing revenue in the amount of \$810,920. Payment of this amount was received in full in July 2016.

**(10) Innovate ABQ**

During fiscal year 2016, the Corporation transferred the land and real estate located at 101 Broadway Boulevard NE, as well as the remaining restricted cash balance, grant receivable, and prepaid insurance, to Innovate ABQ, Inc, a related party. The contribution to Innovate ABQ, Inc. on November 20, 2015 totaled \$7,217,513, which consisted of \$3,957,684 for the land, \$2,990,994 for the building, \$29,961 for the EDA grant receivable, \$229,631 in cash, and \$9,243 in prepaid insurance expense.

**(11) Subsequent Events**

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is November 9, 2016.



**KPMG LLP**  
Two Park Square, Suite 700  
6565 Americas Parkway, N.E.  
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. 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, 2016, 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 9, 2016.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses at items 2016-001 and 2016-002 to be material weaknesses.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.



### **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*.

### **STC.UNM's Response to Findings**

STC.UNM's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. STC.UNM's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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 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 STC.UNM's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Albuquerque, New Mexico  
November 9, 2016



**STC.UNM**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Year ended June 30, 2016

**Findings – Financial Statement Audit**

***Prior Year***

None

***Current Year***

2016–001 Journal Entry Review Process

2016-002 Review of Account Reconciliations

**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)  
Schedule of Findings and Responses  
Year ended June 30, 2016

**2016–001 Journal Entry Review Process – Material Weakness**

***Condition and Criteria***

All organizations should establish effective control procedures over the review and approval of journal entries.

During fiscal year 2016, the journal entries made related to the transfer of Innovate ABQ-related assets from STC.UNM to Innovate ABQ were created and posted by one individual and were not subject to review and approval by someone other than the preparer. This resulted in two incorrect journal entries being posted, which led to a material misstatement in the contribution to Innovate ABQ expense of \$259,243 that was not detected by management.

***Effect***

The lack of proper review and approval of journal entries resulted in a material misstatement identified by KPMG.

***Cause***

STC has no control in place to ensure that all journal entries are reviewed and approved at an appropriate level of detail by someone other than the preparer.

***Recommendation***

We recommend that STC designs and implements a control to ensure that journal entries are reviewed and approved at an appropriate level of detail by someone other than the preparer.

***Management's Response***

STC acknowledges the auditors' findings that journal entries were posted leading to a material misstatement in the contribution to Innovate ABQ expense which were not detected by management. The following actions will be implemented to remedy the situation. Effective immediately, STC will create a formal review process in which the Controller and President will meet weekly to review all manual journal entries as well as trial balance details. Upon conclusion, STC's President & CEO will formally sign off on all the entries and the documents will be filed to ensure all details have been reviewed and approved at an appropriate level of detail by someone other than the preparer.

**STC.UNM**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Year ended June 30, 2016

**2016-002 Review of Account Reconciliations – Material Weakness**

***Condition and Criteria***

All organizations should establish effective control procedures over the review and approval of reconciliations for key operating accounts.

During fiscal year 2016, errors were made in the recording of the release of a contingency related to accrued royalty sharing. This error resulted in an understatement of net operating income and the change in net position of \$94,134 that was not detected by management.

***Effect***

The lack of appropriate review of the royalty sharing accrual and due to UNM account reconciliations resulted in a misstatement identified by KPMG.

***Cause***

STC has no control in place to ensure that reconciliations for key operating accounts are reviewed and approved at an appropriate level of detail by someone other than the preparer.

***Recommendation***

We recommend that STC designs and implements a control to ensure that reconciliations for key operating accounts are reviewed and approved at an appropriate level of detail by someone other than the preparer.

***Management's Response***

STC acknowledges the auditors' findings that errors were made in the recording of the release of a contingency related to accrued royalty sharing. This resulted in understatements in net operating income and the change in net position which were not detected by management. The following actions will be implemented to remedy the situation. Effective immediately, STC will create a formal review process in which the Controller and President will meet weekly to review reconciliations of key operating accounts. Upon conclusion, STC's President & CEO will formally sign off on all documentation to ensure all details have been reviewed and approved at an appropriate level of detail by someone other than the preparer.

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

Exit Conference

Year ended June 30, 2016

An exit conference was conducted on October 24, 2016, 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       | Board Chair                              |
| John Stichman      | Board Secretary/Treasurer                |
| Gabriel Lopez      | Board Member                             |
| Gregg Mayer        | Board Member                             |
| Elizabeth Kuuttila | CEO & Chief Economic Development Officer |
| Preston Hendrix    | Controller                               |

**KPMG**

|                    |                   |
|--------------------|-------------------|
| Suzette Longfellow | Managing Director |
| Monique Trujillo   | Manager           |

STC.UNM is responsible for the contents of the financial statements. KPMG LLP assisted with the preparation of the financial statements.