



**FINANCIAL
STATEMENTS AND
SCHEDULES
2019 | 2018**
Arrowhead Center, Inc.



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New Mexico State University

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Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

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June 30, 2019 and 2018

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Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Board of Directors and Corporation Officers

Ex-Officio Directors

- Dan Arvizu, NMSU Chancellor
- John Floros, NMSU President
- Carol Parker, NMSU Provost
- Ammu Devasthali, Vice Chair, NMSU Board of Regents
- Luke Sanchez, Student Regent, NMSU Board of Regents
- Susan Brown, NMSU Interim Dean, Education
- Lizbeth Ellis, NMSU General Counsel (Non-voting)
- Rolando Flores, NMSU Dean, Agricultural, Consumer, and Environmental Sciences
- Kathy Hansen, Director and CEO, Arrowhead Center
- Andrew Burke, NMSU Senior Vice President for Administration and Finance
- James Hoffman, NMSU Dean, Business
- Enrico Pontelli, NMSU Dean, Arts and Sciences
- Lakshmi Reddi, NMSU Dean, Engineering
- Luis Cifuentes, NMSU Vice President for Research
- Sonya Cooper, NMSU Interim Dean, Health and Social Services

Non-Position Directors

- Davin Lopez, President and CEO, Mesilla Valley Economic Development Alliance
-Current Term: 7/01/2018 – 6/30/2019
- James Manatt, Jr., Chairman and CEO, Thrust Energy
-Current Term: 7/01/2018 – 6/30/2019
- Jackie Kerby Moore, Executive Director, Sandia Science and Technology Park
-Current Term: 7/01/2018 – 6/30/2019
- Roldan Trujillo, Cabinet Secretary, NM Economic Development Department
-Current Term: 7/01/2018 – 6/30/2019

Corporate Officers (July 1, 2018 – June 30, 2019)

- | | |
|--|-----------------|
| • CEO, President and Chairman of the Board | Kathryn Hansen |
| • Vice President / Secretary | Luis Cifuentes |
| • Treasurer | Andrew J. Burke |



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

Independent Auditors' Report

Board of Directors
Arrowhead Center, Inc.
and
Mr. Brian Colón, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the Arrowhead Center, Inc. (Arrowhead), a component unit of New Mexico State University, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Arrowhead'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 Arrowhead Center, Inc., as of June 30, 2019 and 2018, and the changes in its financial 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 4–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019 on our consideration of Arrowhead'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Arrowhead's 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 Arrowhead's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
October 30, 2019

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Management's Discussion and Analysis
For the Years Ended June 30, 2019 and 2018
(Unaudited)

This discussion and analysis of Arrowhead Center, Inc. (Arrowhead) and its financial performance provides an overview of Arrowhead's financial activities for the fiscal years ended June 30, 2019 and 2018. All accounting transactions are considered to be governmental activities for purposes of applying the Governmental Accounting Standards Board's (GASB) accounting standards.

Financial Highlights

Arrowhead's net position increased by \$105,226 for fiscal year 2019, primarily due to an increase in rental income and investment income. In 2018, net position increased by \$265,622, primarily due to an increase in rental income and a decrease in operating expenses.

Arrowhead's operating expenses increased by \$112,713 in fiscal year 2019, due to increase in personnel and supporting services expenses. In fiscal year 2018, operating expenses decreased by \$108,019, due to decreases in private contracts.

Arrowhead's operating revenue decreased by \$57,097 in fiscal year 2019, mostly due to decrease in program services income, resulting in an operating income of \$95,812. In fiscal year 2018 operating revenue increased by \$40,097, mostly due to an increase in rental income, resulting in an operating income of \$265,622

The cash position increased in fiscal year 2019 primarily due to an increase in rental income and a decrease in Research Park expenses. The cash position increased in fiscal year 2018 primarily due to an increase in rental income and a decrease in Research Park expenses.

Using This Annual Report

This annual report contains the following financial statements: Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. Arrowhead's address is: Arrowhead Center Inc., MSC 700, P.O. Box 30001, Las Cruces, NM 88003.

Overview of the Financial Statements

The Statement of Net Position of Arrowhead provides information about Arrowhead's overall financial status. The Statement of Revenues, Expenses, and Changes in Net Position provides information about the operating revenues and operating expenses and the non-operating revenues and non-operating expenses of Arrowhead. The Statement of Cash Flows provides information about the sources and uses of cash.

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Management's Discussion and Analysis
For the Years Ended June 30, 2019 and 2018
(Unaudited)

Reporting on Arrowhead's Activities

Financial Highlights

Arrowhead's condensed financial information as of and for the years ended June 30, 2019, 2018 and 2017 are provided in the following table:

	2019	2018	2017
Current assets	\$ 1,172,879	\$ 1,096,015	\$ 869,740
Other assets	51,763	50,643	32,427
Total assets	<u>\$ 1,224,642</u>	<u>\$ 1,146,658</u>	<u>\$ 902,167</u>
Current liabilities	\$ 56,086	\$ 83,328	\$ 104,459
Net position	1,168,556	1,063,330	797,708
Total liabilities and net position	<u>\$ 1,224,642</u>	<u>\$ 1,146,658</u>	<u>\$ 902,167</u>
Operating revenues	\$ 866,301	\$ 923,398	\$ 883,301
Operating expenses	770,489	657,776	765,795
Operating income	<u>95,812</u>	<u>265,622</u>	<u>117,506</u>
Non-operating revenue	9,414	-	-
Change in net position	<u>105,226</u>	<u>265,622</u>	<u>117,506</u>
Net position, beginning of year	1,063,330	797,708	680,202
Net position, end of year	<u>\$ 1,168,556</u>	<u>\$ 1,063,330</u>	<u>\$ 797,708</u>

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Management's Discussion and Analysis
For the Years Ended June 30, 2019 and 2018
(Unaudited)

Statements of Net Position

Assets – The majority of the assets in 2019 and 2018 were in the form of cash, \$1,147,528 and \$1,075,940, respectively, and the increase is the result of net operating income for both years. All cash was held by Arrowhead's fiscal agent, New Mexico State University (NMSU).

Investments – In 2019 and 2018, investments were \$42,841 and \$33,427, respectively. In 2019, activity in the Arrowhead Innovation Fund, General Partner, Inc. (GP) investment increased and an equity adjustment was made to recognize \$9,414 of investment income.

Liabilities and Net Position – In 2019 and 2018, current liabilities were \$56,086 and \$83,328, respectively. The decrease in 2019 was due to decreases in amounts owed to fees. The 2019 net position increased by \$105,226, due to a net operating income. The increase in 2018 was due to decreases in amounts owed to NMSU.

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – Operating revenue earned in 2019 and 2018 were derived from private contracts, royalties, license fees, and rental income; however, there was a reduction in program service revenue primarily due to a significant decline in the number of private contracts.

Expenses – In 2019, operating expenses increased by \$112,713, an increase in personnel and Research Park maintenance caused the escalation of supporting services expenses; this increase was offset in part by an increment in rental income. In 2018, operating expenses decreased by \$108,019 due to a decline in private contracts, personnel, and Research Park expenses; these decreases were offset in part by an increase in legal fees related to intellectual property.

This financial report is designed to provide a general overview of Arrowhead's finances for all those with an interest in Arrowhead's finances.

Factors Impacting Future Periods.

The uncertainty of the general economic conditions could have a significant impact on Arrowhead.

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Statements of Net Position
As of June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,147,528	\$ 1,075,940
Accounts receivable - current portion, net	25,351	18,532
Prepaid expenses	-	1,543
Total current assets	1,172,879	1,096,015
Non-current assets		
Investments	42,841	33,427
Accounts receivable	8,922	17,216
Total non-current assets	51,763	50,643
TOTAL ASSETS	1,224,642	1,146,658
LIABILITIES		
Current liabilities		
Accounts payable and other accrued liabilities	22,903	50,673
Unearned revenue	4,231	6,413
Due to NMSU	28,952	26,242
TOTAL LIABILITIES	56,086	83,328
NET POSITION		
Unrestricted	1,168,556	1,063,330
TOTAL NET POSITION	\$ 1,168,556	\$ 1,063,330

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

*Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019 and 2018*

	2019	2018
Operating revenues		
Rental income	\$ 829,142	\$ 815,053
Program services income	37,159	108,345
Total operating revenues	<u>866,301</u>	<u>923,398</u>
Operating expenses		
Program services	1,720	33,078
Supporting services	768,769	624,698
Total operating expenses	<u>770,489</u>	<u>657,776</u>
Net operating income	<u>95,812</u>	<u>265,622</u>
Non-operating revenues		
Investment income	9,414	-
Total non-operating revenues	<u>9,414</u>	<u>-</u>
Increase in net position	105,226	265,622
Net position		
Beginning of year	1,063,330	797,708
End of year	<u>\$ 1,168,556</u>	<u>\$ 1,063,330</u>

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 865,593	\$ 893,765
Payments to suppliers	(794,005)	(639,968)
Net cash provided by operating activities	<u>71,588</u>	<u>253,797</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(1,000)
Net cash used in investing activities	<u>-</u>	<u>(1,000)</u>
Net increase in cash	71,588	252,797
Cash and cash equivalents - beginning of year	<u>1,075,940</u>	<u>823,143</u>
Cash and cash equivalents - end of year	<u>\$ 1,147,528</u>	<u>\$ 1,075,940</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating income	\$ 95,812	\$ 265,622
Change in assets and liabilities:		
Decrease in accounts receivable	1,475	7,801
Decrease in prepaid expenses	1,543	1,505
Decrease in unearned revenue	(2,182)	(37,434)
Increase (Decrease) in due to NMSU	2,710	(22,523)
(Decrease) Increase in accounts payable	(27,770)	38,826
Net cash provided by operating activities	<u>\$ 71,588</u>	<u>\$ 253,797</u>

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 1 - Organization, Nature of Operations and Reporting Entity

Arrowhead Center, Inc. (Arrowhead), formerly known as the New Mexico State University Technology Transfer Corporation, is organized pursuant to the provisions of the State of New Mexico's University Research Park Act of 1989 (Act). The purpose of the Act is to foster economic development within the State through the development of research parks or University real property, and through the cooperative ventures of innovative technological significance. Arrowhead is a component unit of New Mexico State University (the University).

A Memorandum of Agreement (MOA) between the Regents of New Mexico State University and Arrowhead has established provisions to which Arrowhead will comply. Arrowhead represents the interests of the University in all intellectual property developed by the University and its faculty for purposes of protection, licensing, and commercialization. Arrowhead's primary purposes are to promote and contribute to economic development and to aid in the transfer of innovative technology between the faculty at the University and the public. Arrowhead furthers the interests of the University by operating research park(s) for the benefit of the University and other facilities within the State of New Mexico.

Operating revenues are derived from rental income, private contracts, and license fees. Arrowhead's operating plan includes royalty fees, which should be a source of revenue in the future. Non-operating revenue was derived from Arrowhead's portion of ownership of stock in privately held investments. The rental income received by Arrowhead is on properties leased by Arrowhead from the University, see additional discussion at Note 4: Leases.

The University pays the legal fees associated with the licensing of patents, which are held in the University's name, until such time as the patent generates royalty income. Arrowhead will reimburse the University for any legal fees related to the licensing of patents generating revenues.

Arrowhead is the sole shareholder in Arrowhead Innovation Fund, General Partner, Inc. (GP). In 2016, GP was created as a for profit corporation to provide investment management and supervisory services to Arrowhead Innovation Fund, LP, or contract these to third parties. Arrowhead's relationship with GP is to be that of an investment, with the intention of generating cash flow and profits.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation. The Governmental Accounting Standards Board's (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. GASB Statement No. 61, *Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, improves financial reporting for governmental entities. GASB Statement No. 80, *Blending Requirements for Certain Component Units*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. Based on the criteria of the above mentioned GASB statements, Arrowhead does not have any component units.

Basis of Accounting. The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes, Arrowhead is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis,

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Cash and Investments. Cash consists of cash on hand and current investments, which are defined as investments that are readily convertible to known amounts of cash or which have an original maturity date within ninety days. Cash recorded in the Statements of Net Position is held by the University in a cash management pool. As of June 30, 2019 and 2018, Arrowhead had stock of \$42,841 and \$33,427, respectively, in privately held companies including 100% ownership of Arrowhead Innovation Fund, General Partners, Inc. (GP) stock. Investments in stock consist of ownership in private companies and are recorded at cost which is considered a proxy to fair value and that as cost is a proxy, further fair value disclosures are not included. GP is accounted for under the equity method in accordance with GASB 90.

Accounts Receivable. Accounts receivable includes contracts with private companies to perform research and analysis studies and reimbursement of organizational costs from related parties. As of June 30, 2019 and 2018, Management has determined that \$36,414 is uncollectible.

Net Position. Arrowhead's net position is classified as follows:

Unrestricted net position is used for financial transactions related to the operation of Arrowhead and may be used at the discretion of the governing board.

When an expense is incurred that can be paid using either restricted or unrestricted resources, Arrowhead's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources. Restricted net position includes resources which Arrowhead is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. As of June 30, 2019 and 2018, Arrowhead had no restricted net position.

Income Taxes. Arrowhead is exempt from federal income tax under section 501(a) of the Internal Revenue Code (IRC) as an organization described in section 501(c)(3). However, income generated from activities unrelated to Arrowhead's exempt purpose is subject to tax under IRC Section 511. Arrowhead had no unrelated business income in 2019 and 2018.

Classification of Revenues and Expenses. Operating revenue and expenses are those incurred which relate directly to facilitating commercialization of the University faculty, staff and student inventions. Primary sources of revenue include rental income and contractual services income which are considered exchange transactions whereby revenue is recognized when earned according to the respective contractual agreements. Operational and patent cost funding from the University is recognized when all eligibility requirements have been met.

Patent cost reimbursement is recognized when earned. All other revenue and expenses are considered non-operating.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Process. Arrowhead is not required to submit its budgets to the New Mexico Higher Education Department (HED) or the New Mexico Department of Finance and Administration-State Budget Division (DFA).

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Reclassifications. Certain amounts in the 2018 financial statements and notes thereto have been reclassified to conform to 2019 financial statement presentation.

Adoption of New Accounting Pronouncement. During the year ended June 30, 2018 Arrowhead adopted GASB Statement No. 90, *Majority Equity Interests*, an amendment of GASB Statements No. 14 and No. 61., which clarifies the treatment of majority equity interest in a legally separate organization. The adoption of this statement resulted in the recognition of \$1,000 investment at June 30, 2018.

Note 3 - Cash and Investments

Arrowhead follows all University cash management and investment policies.

Concentration of Credit Risk. Arrowhead's only investment is stock in privately held companies that are not rated.

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, Arrowhead's deposits may not be returned to it. Arrowhead does not have a deposit policy for custodial credit risk. Arrowhead's cash balance is maintained in the University's cash pool, were \$1,147,528 and \$1,075,940 at June 30, 2019 and 2018, respectively.

Note 4 – Leases

At June 30, 2019 and 2018, Arrowhead (Lessee) had two lease agreements with the University summarized as follows:

(A) Arrowhead Research Park

Land Rent. The Regents of New Mexico State University and Arrowhead have established a Master Ground Lease to allow Arrowhead to lease one tract of land from the University, which is scheduled to terminate on June 30, 2075. The annual Land rent to the University shall be one-half of the net proceeds received by Arrowhead during the preceding year. Net proceeds are defined as the gross land lease revenues, received by Arrowhead, less the total of any amounts retained for operating and improvements expenses as approved in the annual development plan and budget by the University. For fiscal year 2019, Arrowhead Center Inc. recorded \$25,000 in rental expense and recognized a liability to the University. Arrowhead is unable to estimate future minimum lease payments.

Arrowhead sub-leases land in Research Park to tenants (termed sub-lessees). Arrowhead's lease income from land in Research Park, including annually renewable lease agreements, amounted to \$567,708 and \$559,989 for the years ended June 30, 2019 and 2018, respectively.

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Year Ending June 30	Lease Income
2020	\$ 589,093
2021	595,370
2022	601,721
2023	606,809
2024	611,973
2025-2029	3,154,700
2030-2034	3,316,697
2035-2039	3,266,807
2040-2044	3,430,705
2045-2049	3,565,276
2050-2054	2,837,895
2055-2056	1,117,077
	<u>\$ 23,694,123</u>

(B) Genesis Center

Office Space Rent. The Regents of New Mexico State University and Arrowhead have established a Lease for four buildings known as Genesis Center, which is scheduled to terminate on June 30, 2027. The rent to the University is determined in advance for the fiscal year and paid on a monthly basis. The rent covers facilities operations and maintenance, facilities fire protection services, facilities environmental, health and safety, and indirect plan O&M support.

Arrowhead's rent expense for the Genesis Center lease amounted to \$52,956 and \$40,844 for the years ended June 30, 2019 and 2018, respectively.

The following is a schedule of future contracted lease payments, prior to annual actual billing, from Arrowhead to the University for Genesis office space at June 30, 2019:

Year Ending June 30	Lease Income
2020	\$ 63,324
2021	63,324
2022	63,324
2023	63,324
2024	63,324
2025-2027	189,972
	<u>\$ 506,592</u>

Arrowhead sub-leases office space in Genesis Center to tenants (termed sub-lessees). Arrowhead's lease income from office space in Genesis Center, including annually renewable lease agreements, amounted to \$261,434 and \$255,065 for the years ended June 30, 2019 and 2018, respectively.

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

The following is a schedule of minimum future lease income under lease terms exceeding one year as of June 30, 2019:

Year Ending June 30	Lease Income
2020	\$ 142,648
2021	65,701
	\$ 208,349

Note 5 – Related Party

The University provides Arrowhead with various services at no charge, which primarily consists of personnel services. Support arising from the donated services of certain employees of the University is the most significant of the donated services. Such services are not recorded in the accompanying financial statements. Additionally, the University pays legal fees associated with the licensing of patents, which are in the name of the University, until Arrowhead receives the patents royalty income. If and when revenues are received, Arrowhead will reimburse the University for any legal fees paid related to the license agreement generating the revenue. At June 30, 2019 and 2018, Arrowhead was contingently liable for cumulative unreimbursed legal fees of \$3,045,335 and \$3,014,686, respectively (of which \$1,601,314 of the Arrowhead Center legal expenses was considered unrecoverable). This total has been accruing since 1989, which averages \$101,511 per year.

At June 30, 2019 and 2018, Arrowhead recognized \$17,216 and \$25,511, respectively, as accounts receivable from Arrowhead Innovation Fund for organizational costs.

Note 6 – Risk Management

Property and Liability Coverage. Arrowhead is exposed to various risks of loss from torts; thefts of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. Arrowhead, as a component unit of New Mexico State University, is covered through New Mexico State University's policy for liability and casualty coverage offered through the New Mexico Risk Management Division. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 7 - Subsequent Events

Arrowhead has evaluated subsequent events from the balance sheet date through October 30, 2019, the date at which the financial statements were available to be issued, and determined there are no items to disclose.



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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*

Board of Directors
Arrowhead Center, Inc.
and
Mr. Brian Colón, 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 Arrowhead Center, Inc. (Arrowhead), a component unit of New Mexico State University, which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arrowhead'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 Arrowhead's internal control. Accordingly, we do not express an opinion on the effectiveness of Arrowhead'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 a 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 Arrowhead'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*.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



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 Arrowhead'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 Arrowhead's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
October 30, 2019

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Schedule of Findings and Responses
For the Year Ended June 30, 2019

Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
- Material weaknesses: **No**
 - Significant deficiencies: **No**
- (c) Noncompliance material to the financial statements: **No**

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Schedule of Findings and Responses
For the Year Ended June 30, 2019

FINDINGS - FINANCIAL STATEMENT AUDIT

CURRENT AUDIT FINDINGS

None

PRIOR AUDIT FINDINGS

2018-004 Arrowhead Center, Inc. determination of accounting for majority equity interest – Finding that does not rise to the level of a significant deficiency.

Management did not fully consider all applicable accounting principles related to Arrowhead's accounting for the separate legal entity, including whether the separate legal entity qualified as a component unit and/or an investment. In addition, they did not consider the appropriate method of accounting for the investment (equity method).

Current Status: Resolved

Arrowhead Center, Inc.
(A Component Unit of New Mexico State University)

Exit Conference
For the Year Ended June 30, 2019

A closing conference was held on October 30, 2019, to discuss the current audit report. Our opinion is that the financial statements are materially correct. In attendance were the following individuals:

Representing the Board of Regents Audit Committee for New Mexico State University

Ammu Devasthali	Chair
Brad Beasley	Co-Chair
Debra P. Hicks	Audit Committee Member
Cindy Seipel	Audit Committee Community Member
Shari Jones	Audit Committee Community Member

Representing Arrowhead Center, Inc.

Kathryn Hansen	Director
Vanessa Mills	Accountant, Senior

Representing KPMG LLP

John T. Kennedy	Lead Engagement Partner
Suzette Longfellow	Managing Director
Pepper Cooper	Senior Manager

The University and Arrowhead's management prepared the Financial Statements. The University and Arrowhead are responsible for the Financial Statements and its contents.