

2010-2011

Arrowhead

Annual Financial Report



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

Financial Statements
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June 30, 2011 and 2010

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ARROWHEAD CENTER, INC.
Board of Directors and Corporation Officers

2011 Directors

Tilahun Adera

Jon Barela

Kevin Boberg

Garrey Carruthers

Lowell Catlett

Vimal Chaitanya

Barbara Couture

Christopher Dulany

Javier Gonzales

Ricardo Jacquez

Jay Jordan

Bruce Kite

Davin Lopez

James Manatt

Jackie Kerby Moore

Michael Morehead

Michael Rivera

Van Romero

Christa Slaton

Angela Throneberry

Wendy Wilkins

Ben Woods

Officers

Garrey Carruthers – President

Vimal Chaitanya – Vice President

Tilahun Adera – Secretary

Angela Throneberry – Treasurer

Kevin Boberg – Chief Executive Officer

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Arrowhead Center, Inc. and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of financial position of Arrowhead Center, Inc. (the Center) (a blended component unit of New Mexico State University) as of June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Center's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011 on our consideration of the Center'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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5-7 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Albuquerque, New Mexico
October 25, 2011

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

Management's Discussion and Analysis
For the Years Ended June 30, 2011, 2010 and 2009

(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, 2011, 2010 and 2009. All accounting transactions for fiscal years 2011, 2010 and 2009 are considered to be governmental activities for purposes of applying the Governmental Accounting Standards Board's (GASB) accounting standards.

Financial Highlights

- Arrowhead's net assets increased by \$84,866 because program service income was greater than supporting services expenses. In 2010, Arrowhead's net assets increased \$166,679 which was largely due to a full year of operating Genesis Center. In 2009, Arrowhead's net assets increased \$206,392 as a result of the acquisition of the leasing activities of Genesis Center, an operation previously overseen by New Mexico State University's Vice President for Research.
- Arrowhead's operating expenses remained constant in 2011 and 2010, however operating expenses, in 2011, increased largely due to general overhead. In 2010, operating revenue increased by \$95,048 and operating expenses also increased by \$58,247, however this still resulted in a net operating income in fiscal year 2010 and therefore continued to increase the ending net assets. In 2009, operating revenue decreased by \$43,401 and operating expenses decreased by \$188,561, however this still resulted in a larger net operating income in fiscal year 2009 than in 2008.
- The cash position decreased by \$209,707, which is mostly due to the increase in expenses and prepaid expenses. In 2010, the cash position increased by \$157,869. During 2009, the cash position increased by \$67,955.

Using This Annual Report

This annual report contains the following financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. Arrowhead's address is: Arrowhead Center, Inc., MSC 3CR, P.O. Box 30001, Las Cruces, NM 88003.

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

Management's Discussion and Analysis
For the Years Ended June 30, 2011, 2010 and 2009

Overview of the Financial Statements

The Statement of Net Assets of Arrowhead provides information about Arrowhead's overall financial status. The Statement of Revenues, Expenses, and Change in Net Assets 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.

Reporting on Arrowhead's Activities

Financial Highlights

Arrowhead's condensed financial information as of, and for the years ended June 30, 2011, 2010 and 2009 are provided in the following table:

	2011	2010	2009
Current assets	\$ 833,762	\$ 780,769	\$ 622,384
Other assets	139,753	107,327	106,514
Total assets	<u>\$ 973,515</u>	<u>\$ 888,096</u>	<u>\$ 728,898</u>
Current liabilities	20,352	19,799	27,280
Non-current liabilities	-	-	-
Net assets	953,163	868,297	701,618
Total liabilities and net assets	<u>\$ 973,515</u>	<u>\$ 888,096</u>	<u>\$ 728,898</u>
Operating revenues	\$ 457,372	\$ 460,527	\$ 366,292
Operating expenses	404,932	294,661	236,414
Operating income	<u>52,440</u>	<u>165,866</u>	<u>129,878</u>
Non-operating revenue	32,426	813	76,514
Change in net assets	<u>84,866</u>	<u>166,679</u>	<u>206,392</u>
Net assets, beginning of year	868,297	701,618	495,226
Net assets, end of year	<u>\$ 953,163</u>	<u>\$ 868,297</u>	<u>\$ 701,618</u>

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

Management's Discussion and Analysis
For the Years Ended June 30, 2011, 2010 and 2009

Statement of Net Assets

Assets – The majority of the assets in 2011 and 2010 were in the form of cash, \$545,855 and \$755,562, and prepaid expenses, \$272,576 and \$0, respectively. All cash was held by Arrowhead's fiscal agent, New Mexico State University. In 2011, investments increased by \$32,426, however in 2010, that increase was a small \$813. These increases were attributed to Arrowhead acquiring additional stock in private companies. The majority of the assets in 2009 were in the form of cash of \$597,693.

Liabilities and Net Assets – In 2011 and 2010 current liabilities were \$20,352 and \$19,799, respectively. The amounts remained relatively the same in total however accounts payable increased due to one large contract that was outstanding and deferred revenue decreased due to GTL and FTL revenue being recognized in 2011. The current liabilities in 2009 were \$27,280, which consisted of accounts and deferred revenue. The 2011 net assets of \$680,587 decrease from prior year due to a decrease in cash and accounts receivable and increase in expenses. The 2010 net assets of \$868,297 increased from prior year due to an increase in revenues, cash and a decrease in current liabilities. The 2009 net assets of \$701,618 were all classified as unrestricted.

Statement of Revenues, Expenses, and Changes in Net Assets

Revenues – Operating revenue earned in 2011, 2010 and 2009 was derived from private contracts, royalties, license fees, and rental income. Non operating revenue was derived from Arrowhead's portion of ownership of stocks in privately held companies.

Expenses – Total operating expenses increased by \$110,271 during 2011 because of general overhead. Total operating expenses increased by \$58,247 during 2010 primarily because of general overhead support. Total operating expenses decreased by \$188,561 during in 2009 primarily because of less rental payment and dues, fees, and taxes, which were related to the acquisition of Genesis Center in prior year.

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

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

Statements of Net Assets
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash	\$ 545,855	\$ 755,562
Accounts receivable	15,331	25,207
Prepaid expense	272,576	-
	<u>833,762</u>	<u>780,769</u>
Long Term Assets		
Investments	139,753	107,327
TOTAL ASSETS	<u>973,515</u>	<u>888,096</u>
LIABILITIES		
Current Liabilities		
Accounts payable	17,825	1,942
Deferred revenue	2,527	17,857
TOTAL LIABILITIES	<u>20,352</u>	<u>19,799</u>
NET ASSETS		
Unrestricted	953,163	868,297
TOTAL NET ASSETS	<u>\$ 953,163</u>	<u>\$ 868,297</u>
The accompanying notes are an integral part of these financial statements.		

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

*Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010*

	2011	2010
REVENUES		
Operating Revenues		
Program services income	<u>\$ 457,372</u>	<u>\$ 460,527</u>
EXPENSES		
Operating Expenses		
Program services	4,000	12,073
Supporting services	<u>400,932</u>	<u>282,588</u>
Total Operating Expenses	<u>404,932</u>	<u>294,661</u>
Net Operating Income	52,440	165,866
NON OPERATING REVENUES		
Other non operating revenues	<u>32,426</u>	<u>813</u>
Increase in Net Assets	84,866	166,679
NET ASSETS		
Beginning of Year	868,297	701,618
End of Year	<u>\$ 953,163</u>	<u>\$ 868,297</u>
The accompanying notes are an integral part of these financial statements.		

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

Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Program services income	\$ 451,918	\$ 475,120
Payments to suppliers	<u>(661,625)</u>	<u>(317,251)</u>
Net cash provided by operating activities	<u>(209,707)</u>	<u>157,869</u>
Net (Decrease) Increase in Cash	(209,707)	157,869
Cash-Beginning of Year	<u>755,562</u>	<u>597,693</u>
Cash-End of Year	<u>\$ 545,855</u>	<u>\$ 755,562</u>
Reconciliation of Net Operating Income to Net Cash Used by Operating Activities		
Operating Income	\$ 52,440	\$ 165,866
Change in Assets and Liabilities:		
Decrease (increase) in accounts receivable	9,876	(516)
Increase in prepaid expenses	(272,576)	-
(Decrease) increase in deferred revenue	(15,330)	15,109
Increase (decrease) in accounts payable	15,883	(22,590)
Net cash provided by operating activities	<u>\$ (209,707)</u>	<u>\$ 157,869</u>
Supplemental Disclosure of Non-cash Investing And Financing Activities		
Acquisition of stock in private company in lieu of rent	\$ 32,426	\$ -
The accompanying notes are an integral part of these financial statements.		

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

Notes to Financial Statements
For the years ended June 30, 2011 and 2010

Note 1: Organization and Nature of Operations

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.

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 New Mexico State University (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.

In addition to the MOA, the Regents of New Mexico State University and Arrowhead have established a Master Ground Lease to allow Arrowhead to lease two tracts 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. There have been no net proceeds on land rent recorded to date.

Operating revenues are derived from royalties and license fees. Non operating revenue was derived from Arrowhead's portion of ownership of stock in privately held investments.

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.

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

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

Notes to Financial Statements
For the years ended June 30, 2011 and 2010

Note 2: Summary of Significant Accounting Policies (continued)

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. Under GASB 39 criteria, Arrowhead does not have any component units.

Basis of Accounting. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (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, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

As a blended component unit of the University, the Arrowhead follows proprietary fund account as set forth in Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Arrowhead has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB pronouncement conflicts with GASB guidance. Arrowhead has elected to not apply FASB pronouncements issued after the applicable date.

Statement of Net Assets. Current assets consist of unrestricted assets, which are available for current operations or which will be available within one year.

Cash and Investments. Cash and cash equivalents consist 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. Arrowhead had no cash equivalents at June 30, 2011 and 2010. Cash recorded in the Statement of Net Assets is held by the University in a cash management pool. Arrowhead follows all the University established cash management procedures. As of June 30, 2011, Arrowhead had \$139,753 of stock in four privately held companies and as of June 30, 2010, Arrowhead had \$107,327 of stock in three privately held companies. The stock is carried at book value, which approximates fair market value.

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

Notes to Financial Statements

For the years ended June 30, 2011 and 2010

Note 2: Summary of Significant Accounting Policies (continued)

Accounts Receivable. The majority of the accounts receivable includes contracts with outside vendors to perform research and analysis studies. Management has determined that no accounts receivable is uncollectible at June 30, 2011 and 2010.

Net Assets. Arrowhead's net assets are classified as follows:

Restricted net assets: Restricted net assets include resources that the organization is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets are 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.

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.

Classifications 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. 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 the financial statements in conformity with the accounting principles generally accepted in the United States of America 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 expenditures 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, 2011 and 2010

Note 3: Cash and Investments

Arrowhead follows all University cash management and investment policies.

Interest Rate Risk. In accordance with the investment policy, investment maturities for cash balances are scheduled to coincide with cash flows. Arrowhead does not commit any discretionary funds to maturities longer than ten years from the date of purchase. Funds are only committed to maturities longer than five years from the date of purchase if directly related to a specific capital or other long-term project. Investments of non-discretionary funds reflect maturity dates not to exceed the final maturity dates established within the funds' restrictive purposes. At least 50% of all investment balances are to be invested in maturities less than two years.

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 \$545,855 and \$755,562 at June 30, 2011 and 2010, respectively.

Note 4: Related Party

The University provides Arrowhead with various services at no charge including use of office space, supplies and 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, 2011 and 2010, Arrowhead was contingently liable for cumulative unreimbursed legal fees of \$2,078,347 and \$1,979,639, respectively. This total has been accruing since 1989, which averages \$94,470 per year.

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

Notes to Financial Statements
For the years ended June 30, 2011 and 2010

Note 5: Contingencies

Insurance 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 is granted immunity for any tort and for errors and omissions under the Act and is insured under New Mexico State University's Risk Management for liability and casualty insurance for the New Mexico State University-owned property it manages. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Arrowhead Center, Inc. and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the basic financial statements of Arrowhead Center, Inc. (Center) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of 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*.

The Board of Directors
Arrowhead Center, Inc. and
Mr. Hector Balderas
New Mexico State Auditor

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Mess Adams LLP

Albuquerque, New Mexico
October 25, 2011

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

Schedule of Findings and Responses
For the Year Ended June 30, 2011

FINDINGS – FINANCIAL STATEMENT AUDIT

PRIOR AUDIT FINDINGS

None

CURRENT AUDIT FINDINGS

None

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

Exit Conference
For the Year Ended June 30, 2011

A closing conference was held on October 25, 2011, to discuss the current audit report and current and prior year auditors' comments. The parties agreed to the factual accuracy of the comments contained herein. In attendance were the following individuals:

Representing the Board of Regents for New Mexico State University

Mike Cheney	Member
Javier Gonzales	Member

Representing Arrowhead Center, Inc.

Angela Throneberry	Treasurer
Kevin Boberg	Chief Executive Officer for Arrowhead

Representing Moss Adams LLP

Scott Eliason	Partner
Ashley Douglass	Manager

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