

Financial Statements and Schedules

Arrowhead Center, Inc.



2016 | 2015

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

Financial Statements
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June 30, 2016 and 2015

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

Board of Directors and Corporation Officers

Ex-Officio Directors

- Amanda López Askin, Student Regent, NMSU Board of Regents
- Jon Barela, Cabinet Secretary, New Mexico Economic Development Department
- Kevin Boberg, NMSU Vice President for Economic Development
- Garrey Carruthers, NMSU President
- Vimal Chaitanya, NMSU Vice President for Research
- Michael Cheney, President, NMSU Board of Regents
- Lizbeth Ellis, NMSU General Counsel (Non-voting)
- Kathy Hansen, Director and CEO, Arrowhead Center
- James Hoffman, NMSU Dean, Business
- Daniel Howard, NMSU Provost and Executive Vice President
- Jim Libbin, NMSU Interim Dean, Agricultural, Consumer, and Environmental Sciences
- Donald Pope-Davis, NMSU Dean, Education
- Enrique Pontelli, Interim NMSU Dean, Arts and Sciences
- Steve Stochaj, NMSU Interim Dean, Engineering
- Angela Throneberry, NMSU Senior Vice President for Administration and Finance
- Donna Wagner, NMSU Dean, Health and Social Services

Non-Position Directors

- Davin Lopez, President and CEO, Mesilla Valley Economic Development Alliance
- Robert Macy, Sheriff Endowed Chair for Entrepreneurship, College of Business, NMSU
- James Manatt, Jr., President, Providence Technologies
- Jackie Kerby Moore, Executive Director, Sandia Science and Technology Park
- Roldan Trujillo, Senior Managing Director of Corporación Interamericana para el Financiamiento de Infraestructura, S.A.

Corporate Officers (July 1, 2015 – June 30, 2016)

- | | |
|---------------------------------------|--------------------|
| • President and Chairman of the Board | Kevin Boberg |
| • Vice President | Vimal Chaitanya |
| • Treasurer | Angela Throneberry |
| • Chief Executive Officer | Kathryn Hansen |



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

Independent Auditors' Report

The Board of Directors
Arrowhead Center, Inc.
and
Mr. Timothy Keller, 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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the 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 opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arrowhead Center, Inc., as of June 30, 2016 and 2015, 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 December 2, 2016 on our consideration of the 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 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 the Arrowhead's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 2, 2016

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

Management's Discussion and Analysis
For the Years Ended June 30, 2016 and 2015

(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, 2016 and 2015. 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 decreased by \$142,851 for fiscal year 2016, primarily due to an operating loss due to the addition of workers compensation insurance, O&M charges and bad debt. In 2015, net position decreased by \$226,331, primarily due to an operating loss, plus a \$25,000 capital loss on the Toro Energy corporate stock.
- Arrowhead's operating expenses increased by \$23,753 in fiscal year 2016, due to an increase in private contracts and general operating cost. In fiscal year 2015, operating expenses increased by \$64,148 due to an increase in general operating cost.
- Arrowhead's operating revenue increased by \$82,233 in fiscal year 2016 mostly due to an increase in program service income on private contracts, however operating expenses also increased resulting in an operating loss of \$142,851. In fiscal year 2015, operating revenues increased by \$3,610 mostly due to an increase in land lease revenue, however operating expenses also increased resulting in an operating loss of \$201,331.
- The cash position decreased in fiscal year 2016 primarily due to the increase in general operating expenses. In fiscal year 2015, the cash position decreased due to the increase in general operating expenses.

Using This Annual Report

This annual report contains the following financial statements: Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement 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 Change 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, 2016 and 2015

(Unaudited)

Reporting on Arrowhead's Activities

Financial Highlights

Arrowhead's condensed financial information as of and for the years ended June 30, 2016, 2015 and 2014 are provided in the following table:

	2016	2015	2014
Current assets	\$ 657,076	\$ 816,692	\$ 1,030,595
Other assets	32,427	32,427	57,427
Total assets	<u>\$ 689,503</u>	<u>\$ 849,119</u>	<u>\$ 1,088,022</u>
Current liabilities	9,301	26,066	38,638
Net position	680,202	823,053	1,049,384
Total liabilities and net position	<u>\$ 689,503</u>	<u>\$ 849,119</u>	<u>\$ 1,088,022</u>
Operating revenues	\$ 751,487	\$ 669,254	\$ 665,644
Operating expenses	894,338	870,585	806,437
Operating loss	<u>(142,851)</u>	<u>(201,331)</u>	<u>(140,793)</u>
Non-operating expense	-	(25,000)	(368,900)
Change in net position	<u>(142,851)</u>	<u>(226,331)</u>	<u>(509,693)</u>
Net position, beginning of year	823,053	1,049,384	1,559,077
Net position, end of year	<u>\$ 680,202</u>	<u>\$ 823,053</u>	<u>\$ 1,049,384</u>

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

Management's Discussion and Analysis
For the Years Ended June 30, 2016 and 2015

(Unaudited)

Statement of Net Position

Assets – The majority of the assets in 2016 were in the form of cash, \$622,924 and the decreased balance was due to payments to suppliers. In 2015, the majority of the assets were in the form of cash, \$791,614 and the decreased balance was due to payments to suppliers. All cash was held by Arrowhead's fiscal agent, New Mexico State University.

Liabilities and Net Position – In 2016 and 2015, current liabilities were \$9,301 and \$26,066, respectively. The decrease in 2016 was due to a reduction in accounts payable. The 2016 net position decreased by \$142,851, due to an operating loss. The decrease in 2015 was due to a reduction in accounts payable. The 2015 net position decreased by \$226,331, due to an operating loss, plus a \$25,000 capital loss on the Toro Energy corporate stock.

Statement of Revenues, Expenses, and Changes in Net Position

Revenues – Operating revenue earned in 2016 and 2015 were derived from private contracts, royalties, license fees, and rental income. Non-operating expense was derived from Arrowhead's portion of ownership of stocks in privately held companies.

Expenses – Operating expenses increased by \$23,753 due to an increase in private contracts and operating costs. In 2015, operating expenses increased by \$64,148 due to an increase in operating cost.

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
For the Years Ended June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash	\$ 622,924	\$ 791,614
Accounts receivable, net	34,152	25,078
	657,076	816,692
Long Term Assets		
Investments	32,427	32,427
TOTAL ASSETS	689,503	849,119
 LIABILITIES		
Current Liabilities		
Accounts payable	8,729	18,252
Unearned Revenue	572	7,814
TOTAL LIABILITIES	9,301	26,066
 NET POSITION		
Unrestricted	680,202	823,053
TOTAL NET POSITION	\$ 680,202	\$ 823,053
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 Position
For the Years Ended June 30, 2016 and 2015*

	2016	2015
OPERATING REVENUES		
Rental income	\$ 501,764	\$ 521,643
Program services income	249,723	147,611
Total Operating Revenues	<u>751,487</u>	<u>669,254</u>
OPERATING EXPENSES		
Program services	5,294	33,381
Supporting services	889,044	837,204
Total Operating Expenses	<u>894,338</u>	<u>870,585</u>
Net Operating Loss	(142,851)	(201,331)
NON OPERATING EXPENSES		
Loss on investment	<u>-</u>	<u>(25,000)</u>
Decrease in Net Position	(142,851)	(226,331)
NET POSITION		
Beginning of Year	823,053	1,049,384
End of Year	<u>\$ 680,202</u>	<u>\$ 823,053</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, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Program services and rental income	\$ 735,171	\$ 674,716
Payments to suppliers	<u>(903,861)</u>	<u>(890,921)</u>
Net cash used in operating activities	<u>(168,690)</u>	<u>(216,205)</u>
Net Decrease in Cash	(168,690)	(216,205)
Cash-Beginning of Year	<u>791,614</u>	<u>1,007,819</u>
Cash-End of Year	<u><u>\$ 622,924</u></u>	<u><u>\$ 791,614</u></u>
Reconciliation of Net Operating Income to Net Cash Used by Operating Activities		
Operating Loss	\$ (142,851)	\$ (201,331)
Change in Assets and Liabilities:		
Decrease in accounts receivable	(9,074)	(2,302)
(Decrease) Increase in unearned revenue	(7,242)	7,764
Decrease in accounts payable	<u>(9,523)</u>	<u>(20,336)</u>
Net cash used in operating activities	<u><u>\$ (168,690)</u></u>	<u><u>\$ (216,205)</u></u>
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, 2016 and 2015

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. 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.

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. 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).

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

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

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.

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. Arrowhead follows all the University established cash management procedures. As of June 30, 2016 and 2015, Arrowhead had stock in privately held companies of \$32,427 and \$32,427, respectively. Investments in stock consist of ownership in start-up companies and are carried at cost basis.

Accounts Receivable. The majority of the accounts receivable includes contracts with outside vendors to perform research and analysis studies. As of June 30, 2016 and 2015, Management has determined that \$33,809 and \$0 is uncollectible, respectively.

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

Unrestricted net position: 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, 2016 and 2015, 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 2016 and 2015.

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. 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.

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

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

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).

Adoption of New Accounting Pronouncement. During the year ended June 30, 2016, Arrowhead 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 generally accepted accounting principles for state and local governments which did not have a significant effect.

Note 3: Cash

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 \$622,924 and \$791,614 at June 30, 2016 and 2015, respectively.

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

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 4: Leases

At June 30, 2016 and 2015, 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. There have been no lease payments on this agreement recorded to date and 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 \$247,750 and \$239,462 for the years ended June 30, 2016 and 2015, respectively.

Year Ending <u>June 30</u>	Lease <u>Income</u>
2017	\$517,353
2018	538,371
2019	542,456
2020	546,602
2021	552,195
2022 – 2026	2,837,776
2027 – 2031	2,971,577
2032 – 2036	3,027,391
2037 – 2041	3,033,111
2042 – 2046	3,177,016
2047 – 2051	2,998,107
2052 – 2056	<u>2,327,976</u>
	\$23,069,931

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

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 4: Leases (continued)

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 \$55,460 and \$56,092 for the years ended June 30, 2016 and 2015, respectively.

The following is a schedule of future minimum lease payments from Arrowhead to the University for Genesis office space at June 30, 2016:

Year Ending <u>June 30</u>	<u>Lease Payments</u>
2017	\$63,324
2018	63,324
2019	63,324
2020	63,324
2021	63,324
2022 – 2026	316,620
2027	<u>63,324</u>
	<u>\$696,564</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 \$254,014 and \$282,181 for the years ended June 30, 2016 and 2015, respectively.

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

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 4: Leases (continued)

The following is a schedule of minimum future lease income under lease terms exceeding one year as of June 30, 2016:

Year Ending <u>June 30</u>	<u>Lease Income</u>
2017	\$150,202
2018	104,944
2019	88,434
2020	37,750
2021	<u>9,507</u>
	<u>\$390,837</u>

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, 2016 and 2015, Arrowhead was contingently liable for cumulative unreimbursed legal fees of \$2,741,246 (of which \$1,601,314 of the Arrowhead Center legal expenses was considered unrecoverable), and \$2,612,601, respectively. This total has been accruing since 1989, which averages \$101,528 per year.

Note 6: Risk Management

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, as a component unit of New Mexico State University, is insured under New Mexico State University's Risk Management for liability and casualty insurance. 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 December 2, 2016, the date at which the financial statements were available to be issued, and determined there are no items to disclose.



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
Arrowhead Center, Inc.
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 Arrowhead Center, Inc. (Arrowhead), a component unit of New Mexico State University, which comprise the statement of financial 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 December 2, 2016.

Internal Control over Financial Reporting

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

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
December 2, 2016

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

Schedule of Findings and Responses
For the Year Ended June 30, 2016

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, 2016

A closing conference was held on October 28, 2016, 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

Debra P. Hicks	Chair
Amanda López Askin	Member
Shari Jones	Audit Committee Community Member

Representing Arrowhead Center, Inc.

Kathryn Hansen	Director
Kevin Boberg	President, Arrowhead Center, Inc. Board

Representing KPMG LLP

Suzette Longfellow	Managing Director
Jonathan Roepcke	Manager

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