

**NEW MEXICO
HIGHLANDS
UNIVERSITY
FOUNDATION, INC.
(A COMPONENT UNIT OF
NM HIGHLANDS
UNIVERSITY)
Fiscal Year Ended
June 30, 2017**

**NEW MEXICO HIGHLANDS
UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF
NEW MEXICO
HIGHLANDS UNIVERSITY)
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NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)

OFFICIAL ROSTER

June 30, 2017

BOARD OF DIRECTORS

Board of Regents

Mr. William E. Garcia	President/Public Director
Dr. Sam Minner	Chairman of the Board/Ex Officio
Ms. Tina M. Cordova	First Vice President/Public Director
Mr. Jay D. Moore	Treasurer/2nd Vice President/Public Director
Dr. Carlotta E. Lockmiller	Secretary/Public Director
Mr. Christopher "Max" Baca	Public Director/Ex-officio Director
Dr. G. Doyle Daves Jr.	Public Director
Mrs. Linda Mitchell Davis	Public Director
Mr. Jim Franken	Public Director
Mr. Albert Girard	Public Director
Mr. Antonio Lopez	Public Director
Dr. Eileen Madrid	Public Director
Mr. Vince E. Marchi	Public Director/President Alumni Assoc.
Mr. William Melton	Public Director
Mr. Rick Miera	Public Director
Mr. Joseph Montoya	Public Director
Dr. Barbara A. Perea Casey	Public Director
Dr. D. Pauline Rindone	Public Director
Mr. Joe H. Staley, Jr.	Public Director
Mr. Tom Whitson	Public Director
Mr. Leveo V. Sanchez	Chair, Board of Regents, Ex-officio Director
Ms. Editha Bartley	Emeritus Director
Dr. Sharon Caballero	Emeritus Director
Mr. Carlos Lucero	Emeritus Director
Dr. Joseph McCaffrey	Emeritus Director
Mr. Frank A. Marchi	Emeritus Director
Mr. Ernie Quintana	Emeritus Director
Mr. Matias Zamora	Emeritus Director

Administrative Personnel

Mrs. Theresa Law, JD, CFRE	Executive Director/VP of Advancement
Ms. Juli Salman	Alumni Director
Mrs. Louise CdeBaca	Development Finance Officer
Ms. Corie Weaver	Director Advancement Services
Ms. Stephanie Santillanes	Senior Annual Giving Officer
Ms. Lyla Maestas	Administrative Assistant



Service plus value, it all adds up.

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INDEPENDENT AUDITOR'S REPORT

Mr. Wayne Johnson
New Mexico State Auditor
and
The Board of Regents
New Mexico Highlands University Foundation Inc.

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of New Mexico Highlands University Foundation, Inc. (the "Foundation") (a component unit of New Mexico Highlands University), which comprise the statement of net position as of June 30, 2017, and the related statement of revenues, expenses and change in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 auditor's 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 Foundation'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 respective financial position of the business-type activities of the Foundation as of June 30, 2017, and the respective change in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 12 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2017, on our consideration of the Foundation'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 Foundation's internal control over financial reporting and compliance.

Ricci & Company, LLC

Albuquerque, New Mexico
November 1, 2017

FINANCIAL STATEMENTS

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A component Unit of New Mexico Highlands University)
STATEMENT OF NET POSITION
June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 358,795
Pledges receivable	20,000
Prepaid assets	<u>3,125</u>

Total current assets 381,920

Noncurrent Assets

Restricted cash	248,858
Pledges receivable	45,000
Life insurance contract	81,535
Investments, including assets held for others of \$2,320,072	7,825,712
Capital assets, net	<u>6,955,582</u>

Total noncurrent assets 15,156,687

Total assets \$ 15,538,607

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable and accrued liabilities	\$ 31,529
Accrued interest payable	898
Notes payable, current portion	<u>177,937</u>

Total current liabilities 210,364

Long-term liabilities:

Notes payable, net of current portion	591,294
Assets held for others	<u>2,320,072</u>

Total long-term liabilities 2,911,366

Total liabilities 3,121,730

NET POSITION

Invested in capital assets, net of related debt	6,186,351
Restricted, non-expendable	4,433,937
Restricted expendable	1,294,646
Unrestricted	<u>501,943</u>

Total net position 12,416,877

Total liabilities and net position \$ 15,538,607

The Notes to the Financial Statements are an integral part of this statement.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A component Unit of New Mexico Highlands University)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
June 30, 2017

OPERATING REVENUES - UNRESTRICTED	
Lease income	\$ 416,255
Contributions from donors	514,076
Contributed facilities and services	204,671
In-kind contributions	<u>373,630</u>
Total operating revenues	1,508,632
OPERATING EXPENSES	
University support	325,199
Operating expenses	401,100
Student aid grants and stipends	224,380
Contributed facilities and services	204,671
Depreciation	<u>57,698</u>
Total operating expenses	<u>1,213,048</u>
Operating income	295,584
NONOPERATING ACTIVITIES	
Loss on sale of artwork	(2,885)
Investment income, net	<u>628,187</u>
Net non-operating activities	625,302
Income before additions to permanent endowments	<u>920,886</u>
Additions to permanent endowments - Restricted	<u>347,722</u>
CHANGES IN NET POSITION	1,268,608
Net Position - beginning of year - as previously stated	11,648,269
Prior Period Adjustment	<u>(500,000)</u>
Net Position - beginning of year, restated	<u>11,148,269</u>
Net Position, end of year	<u><u>\$ 12,416,877</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A component Unit of New Mexico Highlands University)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from donors	\$ 534,076
Cash received from leasing activities	416,255
Cash paid to beneficiaries and vendors	<u>(774,280)</u>
Net cash provided by operating activities	176,051
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from donors for permanent endowments	<u>347,722</u>
Net cash provided by noncapital financing activities	347,722
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Investment income	625,302
Purchases of investments	(659,156)
Change in cash surrender value of life insurance	<u>(1,301)</u>
Net cash used in investing activities	(35,155)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on note payable	<u>(173,139)</u>
Net cash used in capital and related financing activities	(173,139)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>315,479</u>
Restricted cash, beginning of year	-
Cash and cash equivalents, beginning of year	<u>292,174</u>
Restricted cash, end of year	248,858
Cash and cash equivalents, end of year	<u>\$ 358,795</u>

The Notes to the Financial Statements are an integral part of this statement.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A component Unit of New Mexico Highlands University)
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2017

Reconciliation of operating income to net cash used in operating activities	
Operating income (loss)	\$ 295,584
Adjustments to reconcile operating income and net cash provided by operating activities	
Depreciation expense	57,698
Investment fees	45,188
Donated artwork	(171,560)
Loss on sale of artwork	(2,885)
Gift of contributed stock	(202,070)
Changes in assets and liabilities	
Pledges receivable	20,000
Prepaid assets	(22)
Accounts payable	25,628
Accrued interest	(198)
Assets held for others	108,688
	<hr/>
Net cash provided by operating activities	\$ 176,051
	<hr/> <hr/>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash contributions	\$ (373,630)
Interest paid	\$ 34,816

The Notes to the Financial Statements are an integral part of this statement.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities. New Mexico Highlands University Foundation, Inc., a not-for-profit organization, (Foundation) is formed to encourage, solicit, receive, and administer gifts and bequests of real and personal property and funds for scientific, educational, public service, and charitable purposes for the advancement and benefit of New Mexico Highlands University and its objectives and, to that end (a) to take and to hold, either absolutely or in trust for any limitations and conditions imposed by law or the instrument under which received; (b) to sell, lease, convey, and dispose of any such property, to invest and re-invest any proceeds and other funds, and to deal with and expend the principal and income for any purpose herein authorized; (c) to act as trustee; and (d) in general, to exercise any, all, and every power, including trust powers, which a non-profit organized under the laws of New Mexico for the foregoing purposes can be authorized to exercise.

The University will 1) assign staff to service the administrative needs of the Foundation; 2) provide liability insurance for the Foundation's officers and Board members; 3) provide suitable office and meeting space; 4) pay the cost of reasonable utilities, maintenance and repairs, property insurance, and any other reasonable physical facility support services; 5) provide certain reasonable administration support services; and 6) provide, at no cost to the Foundation, reasonable information technology processing and support, including acquisition of appropriate hardware and software.

The Foundation meets the criteria under Governmental Accounting Standards Board (GASB) Statements No. 39 and No. 61 to qualify as a component unit of the New Mexico Highlands University. The Foundation's financial statements are discretely presented in the New Mexico Highlands University audit report. The Foundation has no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation. The Foundation has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America for governmental entities. The Foundation has no component units, related organizations, joint ventures, or jointly governed organizations. The Foundation's financial statements are reported using a flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

The significant accounting policies are reported in Note 1 and include one adoption of significant accounting standards as described below.

The Foundation implemented Government Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation. (cont.) type reporting entities to apply certain Financial Accounting Standards guidance after November 31, 1989.

Deferred outflows of resources consumed and deferred inflows of resources received and available as they are now included in the elements that make up a statement of financial position and GASB 63 introduces the term net position for reporting the residual of all elements in a statement of financial position. The statement of financial position of the Foundation at June 30, 2017 conforms to the presentation requirements of GASB 63.

The Foundation implemented Governmental Accounting Standards Board Statement No. 65 Items Previously Reported as Assets and Liabilities (GASB 65), which changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after December 15, 2012 (FY 14). There were no deferred outflows or inflows of resources to separately report at June 30, 2017.

Under GASB 65, the liability account, assets held for others, has been increased to include \$500,000 for the High-Impact educational Practices Faculty Development Program received in May 2016. The June 30, 2016 financial statements have been restated to reflect this change.

The Foundation implemented Governmental Accounting Standards Board Statement No. 72 Fair Value Measurements and Application, which requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement is effective for periods beginning after June 15, 2015.

Cash and Cash Equivalents. The Foundation considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents.

Pledges Receivable and Allowance for Doubtful Accounts. Pledges are recorded at net realizable value. Management reviews the collectability of its pledges and if necessary, records an allowance for its estimate of uncollectible amounts.

The Foundation uses the direct write-off method in recognizing uncollectible pledges receivable. Under this method, pledges are charged to operations when they are deemed by management to be uncollectible. There were no pledges receivables written off during fiscal year 2017.

Investments. The Board of Directors has the sole authority and responsibility over the investment assets of the Foundation. The Foundation had adopted an investment policy in 2008 and amended it in 2017.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet in accordance with GASB 72.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments. (cont.) Mutual funds are based on the Foundation's pro-rata share of unit value of the mutual funds. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) are reported as increases or decreases in temporarily restricted net position.

Due to the nature of investments, it is reasonable that changes in the value of investments will occur in the near future and changes could materially affect the amounts reported.

The Foundation has no limitations on the types of investments or deposits it can make within the scope of its investment policy but a Board approval of investments is necessary in certain situations. The following are the target allocations for the investments:

Asset Class	Minimum	Maximum	Preferred
U.S. Equities – Large Cap	20%	45%	35%
U.S. Equities – Small Cap	5%	15%	10%
International Equity	10%	25%	15%
Total Fixed Income	25%	50%	35%
Alternative Investments	0%	10%	0%
Cash and Cash Equivalents	0%	10%	5%

Capital Assets. Capital assets used in the Foundation's operations are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The Foundation does not capitalize historical treasures and works of art. The Foundation does not currently have any capital assets used in its operations. However, the Foundation does have a building and land held for lease to the University. The Foundation's accounting policy over the building and land held for lease follows the same policy as the above capital assets policy.

The Foundation's art collection is recorded at estimated fair value at the date of acquisition or at cost if acquired. During 2017 additional items were added to the collection and corrections were made to certain items never recorded or recorded incorrectly based on industry reference sources and appraisal services.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 39 years for buildings and 5 to 12 years for furniture, fixtures, and equipment. The Foundation capitalizes capital assets with a cost over \$5,000. All art work is capitalized and is not depreciated.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues. The Foundation has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions such as lease income on Foundation capital assets. Revenue on contracts and grants are recognized to the extent that the underlying exchange transaction has occurred. Unrestricted donations are operating items, as they are not financing or investing activities. Fundraising activities are a major activity of the Foundation and are considered operating revenues.

Nonoperating Revenues. Nonoperating revenues include activities that have characteristics of nonexchange transactions, and are consistently applied as nonoperating revenues by *GASB Statement No. 9 Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement No. 34, such as investment income.*

When both restricted and unrestricted resources are available for use, generally it is the Foundation's policy to use the restricted resources first.

Contributions of donated noncash assets are recorded at their fair values in the period received.

Contributed Facilities and Services. Contributed Facilities and Services represent the estimated fair rental value of the office space and general corporate services provided by the University. Contributed facilities are provided on a month-to-month basis. Contributed services are recognized if the services received a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services are recorded as in-kind expense and are included with University support in the financial statements.

Endowments. The endowment spending policy is in alignment with the long term endowment management philosophy of the Foundation, which is to preserve the permanent viability of the endowment. The Foundation supports vital scholarship and other programs from the earnings of its endowment.

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as increases or decreases in temporarily restricted net position and are available for expenditure in accordance with donor specifications and in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act. (46-9A 1-10 NMSA, 1978). During the current year, donor-restricted endowments had net depreciation of \$487,634 and investment income of \$129,289.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing these financial statements include estimated useful lives of capital assets and valuation of artwork.

Income Taxes. The Foundation is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Foundation applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. There were no uncertain tax positions taken by the Foundation for the year ended June 30, 2017. The Foundation's policy is to classify income tax penalties and interest, when applicable, according to their natural classification. There were no income tax penalties or interest for the year ended June 30, 2017. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2014.

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

Net Investment in Capital Assets. This represents the Foundation's total investment in capital assets, net of outstanding debt obligations related to those capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position – Nonexpendable. Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted Net Position – Expendable. Expendable restricted net position is resources that the Foundation is legally or continually obligated to spend in accordance with imposed restrictions by third parties.

Unrestricted Net Position. Unrestricted net position represent resources derived from unrestricted gifts and lease income from the University, net of expenses. These resources may be used at the discretion of the governing board to meet current expenses for any purpose.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events. Subsequent events have been evaluated through November 1, 2017, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2017. On October 19, 2017, the Foundation signed a gift agreement for donated vacant land, valued at \$15,500. Management believes there are no other material subsequent events that have arisen that would require adjustment or disclosure.

NOTE 2. CASH AND CUSTODIAL CREDIT RISK

As of June 30, 2017, cash and cash equivalents and restricted cash recorded in the Foundation's financial statements were as follows:

	1 st Community Bank	Southwest Capital Bank
Cash and cash equivalents in the Foundation	232,660	132,442
Reconciling items	-	(6,307)
Cash and equivalents in financial statements	232,660	126,135
Restricted cash	-	248,858
Total cash in financial institutions	232,660	374,993
FDIC Insurance	(250,000)	(250,000)
Uninsured amount	-	124,993

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk. As of June 30, 2017, \$124,993 of the Foundation's bank balance was exposed to uninsured amounts. The Foundation holds bank balances at 1st Community Bank and Southwest Capital Bank, both in Las Vegas, New Mexico.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3. INVESTMENTS

At June 30, 2017 investments of the Foundation are summarized as follows:

Common stock	\$ 4,995,782
Cash and money market funds	160,711
U.S. Treasury and other federal agencies	695,969
U.S. Corporate bonds	741,103
Mutual funds	214,169
Other	<u>17,978</u>
Subtotal	6,825,712
Certificate of deposits	<u>1,000,000</u>
Total investments	<u>\$ 7,825,712</u>

Interest Rate Risk. Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2017, the Foundation had the following investments subject to interest rate risk:

	<u>Maturities</u>	<u>Fair Value</u>
US Obligations		
Treasury	06/30/18 - 08/15/26	\$ 564,997
Agency	03/07/18 - 10/07/21	\$ 130,972
US Corporate Bonds	12/11/17 - 07/15/22	\$ 741,103

The Foundation does not have a policy that manages its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2017, the following investments are subject to credit risk:

	<u>Rating</u>	<u>Fair Value</u>
U.S. Agency Obligations	AA +	\$ 130,972
U.S. Corporate Bonds	AA+/BBB+	\$ 741,103

All of the Foundation's investments, except its certificates of deposit, are held by Morgan Stanley. Community 1st Bank and Southwest Capital Bank holds the Foundation's certificates of deposit.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4. FAIR VALUE OF INVESTMENTS

During fiscal year 2016, the Foundation adopted the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which establishes fair value standards for certain investments held by governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

U.S. generally accepted accounting principles establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies.

Investments held in cash and cash equivalents, certificates of deposit, and money market funds were valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4. FAIR VALUE OF INVESTMENTS (CONTINUED)

Investments in common stock, mutual funds, and debt securities are valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the fair value measurements of the assets and liabilities at June 30, 2017:

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
At June 30, 2017				
Common stock	\$ 4,995,782	4,995,782	-	-
Cash and money market funds	160,711	160,711	-	-
U.S. Treasury	695,969	695,969	-	-
U.S. Corporate bonds	741,103	741,103	-	-
Mutual funds	214,169	214,169	-	-
Certificates of deposit	1,000,000	1,000,000	-	-
Other	17,978	17,978	-	-
	<u>\$ 7,825,712</u>	<u>7,825,712</u>	<u>-</u>	<u>-</u>

NOTE 5. ASSETS HELD FOR OTHERS AND TRANSACTION WITH THE PRIMARY INSTITUTION

As of June 30, 2017, assets held for the Foundation consist of University Endowments in the amount of \$2,320,072.

During 2017, the Foundation provided \$80,225 of scholarship funds to the University.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6. LIFE INSURANCE CONTRACT

The Foundation owns, and is the beneficiary of, a \$100,000 Whole Life insurance policy on one of the Board Members, who pays the annual premiums. As of June 30, 2017, the insurance policy had a cash value of \$81,535, which is recorded as an asset of the Foundation and determined by the life insurance company.

NOTE 7. CAPITAL ASSETS

	Balance,			Balance,
	June 30, 2016	Additions	Deletions	June 30, 2017
Capital assets not being depreciated:				
Land	\$ 2,409,841	-	-	2,409,841
Artwork	<u>3,220,215</u>	<u>289,320</u>	<u>(117,761)</u>	<u>3,391,774</u>
	<u>5,630,056</u>	<u>289,320</u>	<u>(117,761)</u>	<u>5,801,615</u>
Capital assets being depreciated:				
Buildings held for lease to University	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Accumulated depreciation				
Buildings	<u>(1,038,572)</u>	<u>(57,698)</u>	-	<u>(1,096,270)</u>
Capital assets, net	<u>\$ 6,841,721</u>	<u>231,622</u>	<u>(117,761)</u>	<u>6,955,582</u>

Depreciation expense for the year totaled \$57,698.

NOTE 8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, is as follows:

	Balance,			Balance,	Amount
	June 30, 2016	Additions	Deletions	June 30, 2017	Due Within
					One Year
Notes Payable	<u>\$ 942,370</u>	<u>-</u>	<u>(173,139)</u>	<u>769,231</u>	<u>177,937</u>

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9. NOTE PAYABLE

The Foundation has a 4% note payable to a bank related to its Rio Rancho land and building. The Foundation has the ability to make additional draws on the loan to upgrade and remodel the building. During 2017 there were no additional draws on the loan for this purpose. The loan is due in monthly installments of \$17,346 through October 2021, at which time the remaining balance is due. The terms of the note include a due on demand clause. Interest expense for the year totaled \$34,816.

The scheduled maturity of note payable for the Foundation is as follows:

<u>Year</u>	<u>Principal</u>
2018	\$ 177,937
2019	185,279
2020	192,907
2021	200,816
2022	<u>12,292</u>
	<u>\$ 769,231</u>

NOTE 10. LEASE WITH NEW MEXICO HIGHLANDS UNIVERSITY

The Foundation leases a building it owns in Rio Rancho, New Mexico to New Mexico Highlands University. The Foundation entered into a twenty-year operating lease agreement on January 30, 1997. Lease income for the year ended June 30, 2017, was \$379,054.

The Foundation has a second operating lease agreement with Highlands University for the 8th Street parking lot adjoining the campus. The Foundation purchased the property in 2014 and has entered into the lease on February 1, 2014, for a five-year period. Monthly rental is \$3,100 per month. Rental income for the year ended June 30, 2017, was \$37,200.

NOTE 11. RISK MANAGEMENT

The Foundation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. The Foundation is insured through a private carrier for business and property risk and for director and officer liability insurance. There have been no significant reductions in coverage from the prior years and settlements have not exceeded coverage in the past three years.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 12. PRIOR PERIOD ADJUSTMENT

The June 30, 2016 financial statements have been restated to reflect a reduction to the ending net position, from \$11,648,269 to \$11,148,269. The liability account, assets held for others, was increased to include \$500,000 for the High-Impact Educational Practices Faculty Development Program. These funds were received prior to June 30, 2016, but not recorded on the financial statements until after year end.

SUPPLEMENTARY INFORMATION



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Se/ **INDEPENDENT AUDIOR'S REPORT**
ON INTERNAL CONTROL AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDTING STANDARDS

Mr. Timothy Keller
New Mexico State Auditor
and
The Board of Regents
New Mexico Highlands University Foundation Inc.

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 New Mexico Highlands University Foundation, Inc. (Foundation) (a component unit of New Mexico Highlands University), the Statement of Net Position as of June 30, 2017, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year ended and the related notes to the financial statements, and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material

weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 12-6-5 NMSA 1978, and which are described in the accompanying schedule of findings and responses as items 2015-002, 2017-001 and 2017-002.

The Foundation's Response to Findings

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Foundation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Albuquerque, New Mexico
November 1, 2017

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

PRIOR YEAR FINDINGS

2015-002 FOUNDATION BUDGET (OTHER NONCOMPLIANCE) – UPDATED AND REPEATED

CURRENT AUDIT FINDINGS

2017-001 RESTRICTED ACCOUNTS (OTHER NONCOMPLIANCE)

2017-002 INTERNAL CONTROLS (OTHER NONCOMPLIANCE)

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2017

FINANCIAL STATEMENT FINDINGS

2015-002 FOUNDATION BUDGET (OTHER NONCOMPLAINEE) – UPDATED AND REPEATED

CONDITION

The Foundation is not currently preparing an annual budget by projecting revenues that it will receive, and expenses that it is responsible for in the coming year and submitting them to the Board for approval prior to the start of the new fiscal year. Such approved budgets serve as authorization for budgeted expenses during the year. The Foundation discussed its plans for a budget format and approval timing in its last meeting. Procedures to eliminate this finding are in progress.

CRITERIA

The Bylaws of the Foundation as Amended 2008 (updated and amended on July 15, 2016) indicate that an annual budget shall be created and submitted to the Board for approval prior to the start of the fiscal year. The approved budget serves as authorization for the Executive Director to expend budget amounts.

CAUSE

The revenue and expenses that the Foundation is responsible for are not complex. The New Mexico Highlands University is responsible for operating items including administrative staff assigned to the Foundation and other needed administrative expenses. Investment returns do not readily lend themselves to a budget process except for investment expenses and dividends and interest. Due to changes in management personnel, the Foundation has operated with different individuals in most recent years. Current management is working with the Board on developing budget format and process, but has not been able to complete their work prior to year-end.

EFFECT

The expenditures are not authorized by the budget and therefore, the Foundation is not in compliance with its Bylaws.

RECOMMENDATION

We recommend that the budget process, as described in the Bylaws, be instituted on an annual basis and submitted to the Board prior to the start of the fiscal year.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The NMHU Foundation recognizes this finding and has corrected this finding for FY18. The NMHU Foundation Board of Directors passed a FY18 budget at its May 24, 2017 meeting.

- Timeline to correct: Budget finding has been resolved as of the date of this report.
- Responsible Official: Executive Director/VP of Advancement.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2017

2017-001 RESTRICTED ACCOUNTS (OTHER NONCOMPLIANCE)

CONDITION

Per our cash testwork, we noted that the restricted and unrestricted bank accounts were co-mingled up until October 2016, when NMHUF began creating separate bank accounts. Process was completed in January 2017. In addition, the Foundation charges a 1% administrative fee for servicing the endowed funds. We noted the fee is calculated correctly in total, but not allocated correctly to each fund.

CRITERIA

Accounting standards require nonprofit organizations to separate permanently restricted, temporarily restricted and unrestricted funds, determined by either the absence or the existence of donor-imposed restrictions on the use of funds.

CAUSE

Fund balance could be misstated if funds are not allocated properly to permanently restricted, temporarily restricted and unrestricted accounts.

EFFECT

By co-mingling unrestricted, restricted and endowed accounts, the potential error of misclassifying those funds are high.

RECOMMENDATION

We recommend all unrestricted, restricted and endowed funds remain in separate accounts for easy classification purposes and recording the 1% administrative fee by fund in the Foundation's unitization process.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The NMHU Foundation concurs with this finding, and addressed it in January 2017, previously commingled unrestricted, restricted, and endowed funds were segregated into separate accounts, with procedures established to prevent reoccurrence. As to the utilization of the 1% management fee, the unitization takes place in manually created records and this will be changed so that the correct unitization is found in all records going forward.

- Timeline to correct: Co-mingled accounts and administrative fee finding has been resolved as of the date of this report.
- Responsible Official: Executive Director/VP of Advancement.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2017

2017-002 INTERNAL CONTROLS (OTHER NONCOMPLIANCE)

CONDITION

During our internal control review, we noted the following issues of deficiencies in the design of controls: 1 - recording donated stock, net of management fees, 2 - annual art inventory not being reviewed and initialed, 3 - Journal entries entered prior to review, 4 - Lease agreement not signed and no current year payment amount documented, 5 - cleaning up old general ledger accounts on a regular basis, 6 - no process for reviewing stale dated checks, and 7 - investment review done quarterly, instead of monthly.

CRITERIA

It is the responsibility of management to design and follow good internal controls that provide reasonable assurance regarding the reliability of the financial statements.

CAUSE

Due to the changes in management personnel, the Foundation has operated with different individuals in most recent years. Current management is working on developing better processes but has not been able to complete by year end.

EFFECT

Unintentional or intentional errors could exist in the financial records without detection by management.

RECOMMENDATION

We recommend reviewing all policies and monitoring the Foundation's compliance on an annual basis.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The NMHU Foundation concurs with this finding, will immediately implement or research the procedures suggested by the auditor to address outstanding issues, and believes that appropriate policies and procedures are in place to prevent reoccurrence.

- Timeline to correct: All internal controls will be reviewed and updated by June 30, 2017.
- Responsible Official: Executive Director/VP of Advancement.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A Component Unit of New Mexico Highlands University)
EXIT CONFERENCE
June 30, 2017

An exit conference was held on October 30, 2017, with the following in attendance:

New Mexico Highlands University Foundation, Inc.:

Dr. Sam Minner	Chairman of the Board
Max Baca	Vice President for Finance and Administration
Theresa M. Law, JD, CFRE	Executive Director/VP of Advancement
Louise CdeBaca	Development Finance Officer

Ricci & Company LLC Personnel:

Wayne Brown	Partner
Mark Santiago	Manager