



**NEW MEXICO HIGHLANDS
UNIVERSITY FOUNDATION (A COMPONENT
UNIT OF NEW MEXICO HIGHLANDS
UNIVERSITY)**

FINANCIAL STATEMENTS

JUNE 30, 2013

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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NEW MEXICO HIGHLAND UNIVERSITY FOUNDATION

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**NEW MEXICO HIGHLANDS
UNIVERSITY FOUNDATION**

Official Roster

June 30, 2013

Board of Directors

Dr. G. Doyle Daves, Jr., President/Public Director
Dr. James Fries, Chairman of the Board/Ex-Officio
Ms. Tina M. Cordova, First Vice President/Public Director
Mrs. Linda Mitchell Davis, Public Director
Mr. Ray Litherland, Treasurer/Public Director
Dr. Sharon Caballero, Secretary/Executive Director
Mr. Jim Franken, Public Director
Mr. William E. Garcia, Public Director
Dr. Melvyn Huckaby, Public Director
Mr. John Lesselyong, Public Director
Mr. Greg W. Levenson, Public Director
Mr. James Mandarino, Alumni Director
Dr. Joseph McCaffrey, Public Director
Mr. Jay D. Moore, Public Director, Second Vice President
Mr. Charles J. Muchmore, Public Director
Dr. Barbara A. Perea Casey, Public Director
Dr. D. Pauline Rindone, Public Director
Ms. Ivy M. Romero, Public Director, AWMNI President
Mr. Ernest T. Sanchez, Public Director
Mr. Leveo V. Sanchez, Ex-officio Director\Emeritus Director
Mr. Joe H. Staley, Jr., Public Director
Ms. Editha Bartley, Emeritus Director
Mr. Carlos Lucero, Emeritus Director
Mr. Frank A. Marchi, Emeritus Director
Mr. Ernie Quintana, Emeritus Director
Mr. Matias Zamora, Emeritus Director
Mr. Frank Marchi, Emeritus Director
Dr. Eileen Madrid, Public Director

Administrative Personnel

Dr. Sharon Caballero, Executive Director
Jim Mandarino, Alumni Director and Development Officer
Darlene Chavez, Development Finance Officer

Report of Independent Auditors

Board of Directors
New Mexico Highlands University Foundation
And
Mr. Hector Balderas,
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of New Mexico Highlands University Foundation (the "Foundation") (a component unit of New Mexico Highlands University) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Foundation'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 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.

Board of Directors
New Mexico Highlands University Foundation
And
Mr. Hector Balderas,
New Mexico State Auditor

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, 2013, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 9 to the financial statements, in 2013, the Foundation adopted accounting guidance allowing the Foundation to capitalize its artwork under GASB Codification 1400, Reporting Works of Art and Historical Treasures. The adoption of the accounting guidance resulted in the restatement of previously reported amounts for the year ended June 30, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and on pages 5 through 8 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.

Board of Directors
New Mexico Highlands University Foundation
And
Mr. Hector Balderas,
New Mexico State Auditor

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2013 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 Foundation's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
November 15, 2013

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

New Mexico Highlands University Foundation (Foundation) has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*.

Overview of the Financial Statements

The Foundation's annual report consists of the Management's Discussion and Analysis (MD&A), which provides a broad narrative overview of its financial activities for the fiscal years ended June 30, 2013 and 2012, and the following, which comprise the basic financial statements:

1. Statement of Net Position
2. Statement of Revenues, Expenses and Changes in Net Position
3. Statement of Cash Flows
4. Notes to Financial Statements

The financial statements give an overall picture of the Foundation's financial situation and should be read in conjunction with the MD&A.

The statement of net position of the Foundation provides both long-term and short-term information about the Foundation's overall financial status. The statement of revenues, expenses and changes in net position provides information about the operating revenues and expenses and the non-operating revenues of the Foundation. The statement of cash flows provides information about the sources and uses of cash by the Foundation. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Condensed Financial Information

	2013	2012
Statement of Net Position		
Current Assets	\$ 1,349,940	1,248,151
Noncurrent Assets	11,002,656	9,574,101
Total assets	<u>12,352,596</u>	<u>10,822,252</u>
Current Liabilities	177,407	188,526
Noncurrent Liabilities	2,649,971	2,220,681
Total liabilities	<u>2,827,378</u>	<u>2,409,207</u>
Net Position		
Net investment in capital assets	4,434,943	3,796,490
Unrestricted	127,060	325,183
Restricted, expendable	2,496,090	1,939,247
Restricted, unexpendable	2,467,125	2,352,125
	<u>\$ 9,525,218</u>	<u>8,413,045</u>
Statements of Revenue, Expenses, and Changes in Net Position		
Operating revenue		
Contributions	\$ 1,679,500	856,408
Lease income from the University	378,994	371,940
Total operating revenue	<u>2,058,494</u>	<u>1,228,348</u>
Operating expenses		
Student aid grants and stipends	384,476	169,792
Operating expenses	356,039	519,940
Other expenditures	888,386	697,671
Total operating expenses	<u>1,628,901</u>	<u>1,387,403</u>
Operating (loss) income	429,593	(159,055)
Investment income and contributions to endowment	682,580	229,582
Change in net position	1,112,173	70,527
Net position, beginning of year	8,413,045	6,352,730
Restatement	-	2,060,315
Net position, as restated	<u>8,413,045</u>	<u>8,413,045</u>
Net position, end of year	<u>\$ 9,525,218</u>	<u>8,413,045</u>

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Financial Analysis

The statement of net position discloses information on assets, liabilities, and net position. The Foundation's total assets at June 30, 2013 of \$12,352,596 exceeded total liabilities of \$2,827,378, yielding total net position of \$9,525,218. The total net position showed an increase of approximately 13% for the 2013 fiscal year. The primary factor contributing to this net increase is an increase in contributions to certain endowments and additions to artwork. The Foundation's total assets at June 30, 2012 of \$10,822,252 exceeded total liabilities of \$2,409,207, yielding total net position of \$8,413,045. Total net position showed an increase of approximately 2% for the 2012 fiscal year. The primary factor contributing to this increase is an increase in contributions to certain endowments. Liabilities increased from \$2,409,207 at June 30, 2012 to \$2,827,378 at June 30, 2013 primarily due to increases on its note payable for its Rio Rancho building.

At June 30, 2013, the major portion of the Foundation's assets is its investments (43%) followed by building held for lease to the University at (25%) and cash (10%). The net increase in fair value of investments for fiscal year 2013 amounted to \$396,588.

Total operating revenues of \$2,058,494 were recorded at June 30, 2013. Nonoperating revenues were \$396,588. Total revenues increased 67% from the prior year, largely due to the increase in donations and investment income.

Total operating expenses for fiscal year 2013 were \$1,628,901, which represented a 17% increase in spending from the prior year. These increases were primarily due to an increase in awarded scholarships.

Budgetary Highlights

None. The Foundation does not have a legally adopted budget and therefore does not include budget information herein.

Capital Assets and Debt Administration

Capital assets are composed of land and a building held for lease to the University and artwork. Capital assets, net of accumulated depreciation were \$5,715,067 and \$4,812,286 at June 30, 2013 and 2012, respectively.

Debt consisted of a note payable on the above land and building. Debt of \$1,280,124 and \$1,015,796 was recorded at June 30, 2013 and 2012, respectively.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Factors Impacting Future Periods

None

Contacting New Mexico Highland University Foundation's Financial Management

If you have questions about this report or need additional information, contact New Mexico Highlands University Foundation at Box 9000, Las Vegas, New Mexico 87701.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
STATEMENT OF NET POSITION
June 30, 2013**

ASSETS

Current Assets	
Cash and cash equivalents	\$ 1,200,211
Receivables	146,626
Prepaid assets	3,103
	<hr/>
Total current assets	1,349,940
Noncurrent Assets	
Investments	5,287,589
Capital Assets	
Artwork	2,597,365
Building held for lease to the University, net	3,117,702
	<hr/>
Total noncurrent assets	11,002,656
	<hr/>
Total assets	\$ 12,352,596

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts payable and accrued liabilities	\$ 24,585
Notes payable - current portion	151,337
Accrued interest payable	1,485
	<hr/>
Total current liabilities	177,407
Noncurrent Liabilities	
Assets held for other	1,521,184
Notes payable - long term portion	1,128,787
	<hr/>
Total noncurrent liabilities	2,649,971
	<hr/>
Total liabilities	2,827,378
Net Position	
Net investment in capital assets	4,434,943
Unrestricted	127,060
Restricted, expendable	2,496,090
Restricted, unexpendable	2,467,125
	<hr/>
Total net position	9,525,218
	<hr/>
Total liabilities and net position	\$ 12,352,596

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2013

Operating Revenues	
Contributions	\$ 1,679,500
Lease income from University	378,994
Total operating revenues	<u>2,058,494</u>
Operating Expenses	
Student aid grants and stipends	384,476
University support	830,688
Operating expenses	356,039
Depreciation	57,698
Total operating expenses	<u>1,628,901</u>
Operating income	<u>429,593</u>
Nonoperating Revenues	
Investment income, net	396,588
Income before additions to permanent endowments	826,181
Additions to Permanent Endowments	<u>285,992</u>
Increase in net position	1,112,173
Net position, beginning of year	<u>6,352,730</u>
Restatement	2,060,315
Net position, beginning of year, as restated	<u>8,413,045</u>
Net position, end of year	<u><u>\$ 9,525,218</u></u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
Years Ended June 30, 2013

Cash Flows From Operating Activities	
Cash received from donors	\$ 767,766
Cash paid to beneficiaries and vendors	(852,830)
Net cash used by operating activities	<u>(85,064)</u>
Cash Flows from noncapital financing activities	
Cash received from donors	285,992
Cash Flows From Capital and Related Financing Activities	
Principal payments on notes payable	(159,100)
Net increase in cash and cash equivalents	41,828
Cash and cash equivalents at beginning of year	<u>1,158,383</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,200,211</u></u>
Cash Flows From Operating Activities	
Operating income	\$ 429,593
Adjustments to reconcile operating income to net cash used by operating activities	
Contributed artwork	(537,050)
Depreciation	57,698
Receivables	(60,485)
Accounts payable and accrued liabilities	(17,404)
Accrued interest payable	280
Assets held for other	42,304
Net cash used by operating activities	<u><u>\$ (85,064)</u></u>
Supplemental Schedule of non-cash investing and financing activities	
Increase in note payable for land acquisition	423,428
Unrealized gain on investments	396,588

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities. New Mexico Highlands University Foundation (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.

Under the Memorandum of Agreement with the University, 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) 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. As a component unit of New Mexico Highlands University, the Foundation prepared its financial statements in accordance with the accounting disclosure and reporting requirements under Governmental Accounting Standards Board (GASB) pronouncements, as the Foundation meets the criteria of a governmental entity. 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.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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.

Allowance for Doubtful Accounts. 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.

Investments. The investments policy allows the Foundation to invest its portfolio in equities, fixed-income, and other investment strategies to maintain sufficient liquidity to meet projected (or budgeted) distribution requirements.

Capital Assets. Capital assets used in the Foundation's operations are recorded at cost at the date of acquisition, or fair market 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 capitalize historical treasures or works of art. The Foundation does not currently have any capital assets used in its operations. However, the Foundation does have a Building Held for Lease to the University. The Foundation's accounting policy over the building held for lease follows the same policy as the above capital assets policy.

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.

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 unrestricted donations. Revenue on contracts and grants are recognized to the extent that the underlying exchange transaction has occurred.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Nonoperating Revenues. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined 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. Gifts and contributions are recognized when all applicable eligibility requirements have been met.

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. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded as University support in the accompanying financial statements.

Contributed Facilities and Services. Contributed Facilities and Services represent the estimated fair rental value of office space and general corporate services provided. 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 accompanying 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 earning of its endowment. These programs are in concert with provisions established by donors of the endowment. Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase in restricted, expendable net position until the amount is expended in accordance with donor specifications and in accordance with the State of New Mexico Uniform Management of Institutional Funds Act (Chapter 46, Article 9, NMSA 1978).

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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.

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. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position - Nonexpendable. Nonexpendable restricted net position consist 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's is legally or contractually 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.

Under the reporting required by the Financial Accounting Standards Board (FASB), unrestricted equity includes the amounts invested in capital assets, net of related debt. As the Foundation follows GASB, the net investment in capital assets is reported separately.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. CASH AND CASH EQUIVALENTS

As of June 30, 2013, cash and cash equivalents recorded in the Foundation's financial statements were as follows:

Cash and cash equivalents	<u>\$ 1,200,121</u>
Cash and cash equivalents at bank	\$ 1,207,501
Reconciling items	<u> (7,290)</u>
Cash and cash equivalents recorded in financial statements	<u>\$ 1,200,211</u>

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. The Foundation is not required to follow state statutes requiring pledged collateral, and therefore no collateralization is required. As of June 30, 2013, \$760,138 of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts. All of the Foundations bank balances are held by Community 1st Bank in Las Vegas, New Mexico.

NOTE 3. INVESTMENTS

At June 30, 2013, investments of the Foundation are summarized as follows:

Cash and money market funds	\$ 200,000
Certificates of deposit	187,764
Mutual funds	506,146
Unsettled transactions	(735)
Preferred stock	29,685
Common stock	3,111,574
U.S. obligations	490,542
U.S. agency obligations	112,008
U.S. corporate bonds	<u>650,605</u>
Total investments	<u>\$ 5,287,589</u>

Interest Rate Risk. As of June 30, 2013, the Foundation had the following investments subject to interest rate risk:

Investment Type	Fair Value	Weighted Average Maturity (years)
U.S. obligations	\$ 490,542	2.80
U.S. agency obligations	112,008	.73
U.S. corporate bonds	<u>650,605</u>	4.77
	<u>\$ 1,253,135</u>	

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3. INVESTMENTS (CONTINUED)

The Foundation does not have a provision in its' formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. As of June 30, 2013, the following investments are subject to credit risk:

U.S. Corporate Bonds:

<u>Rating</u>	<u>Fair Value</u>
A...	\$ 458,302
B...	<u>192,307</u>
	<u>\$ 650,609</u>

U.S. Agency Obligations:

<u>Rating</u>	<u>Fair Value</u>
BAA1/BBB	<u>\$ 112,008</u>

The Foundation has an investment policy that requires an allocation percentage of a maximum of 75% of the funds, will be invested, and a minimum of 35% in both equities and fixed income securities.

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

NOTE 4. ASSETS HELD FOR OTHERS

As of June 30, 2013, assets held for the University consist of University Endowments in the amount of \$1,521,184.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5. CAPITAL ASSET – BUILDING HELD FOR LEASE TO UNIVERSITY, NET

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 1,309,513	\$ 423,429	\$ -	\$ 1,732,942
Artwork, as restated*	2,060,315	537,050	-	2,597,365
	<u>3,369,828</u>	<u>960,479</u>	<u>-</u>	<u>4,330,307</u>
Other capital assets				
Buildings held for lease to University	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Accumulated depreciation for Buildings	<u>\$ (807,779)</u>	<u>(57,699)</u>	<u>-</u>	<u>(865,477)</u>
Capital assets, net	<u>\$ 4,812,286</u>	<u>\$ 902,781</u>	<u>\$ -</u>	<u>\$5,715,067</u>
Capital assets summary				
Capital assets not being Depreciated	\$ 3,369,828	\$ 960,479	\$ -	\$ 4,330,307
Other capital assets, at cost	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Total cost of capital assets	5,620,065	-	-	6,580,544
Accumulated depreciation	<u>(807,779)</u>	<u>(57,698)</u>	<u>-</u>	<u>(865,477)</u>
Capital assets, net	<u>\$ 4,812,286</u>	<u>\$ 902,781</u>	<u>\$ -</u>	<u>\$5,715,067</u>

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

* Beginning balance restated, please see footnote 9 for further detail.

NOTE 6. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Additions	Deletion	Balance June 30, 2013	Amount Due Within One Year
Notes payable	<u>\$ 1,015,796</u>	<u>423,428</u>	<u>159,100</u>	<u>1,280,124</u>	<u>151,337</u>

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7. NOTE PAYABLE

The Foundation has a note payable to a national bank which was used to pay off existing real property and indebtedness.

Seven year note payable	<u>Amount</u>
Due May 21, 2017 with monthly payments of \$17,326 at a 4% fixed interest rate.	
The note is secured with building and land.	\$ 1,280,124
Current portion	<u>(151,337)</u>
Total long-term portion	<u>\$ 1,128,787</u>

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 151,337
2015	157,590
2016	163,983
2017	170,877
2018	177,937
Thereafter	<u>458,400</u>
	<u>\$ 1,280,124</u>

NOTE 8. 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 lease agreement on January 30, 1997.

Lease income for the year ended June 30, 2013 was \$378,994. Base rent per month is \$30,995 through the term of the lease.

NOTE 9. RESTATEMENT – ADOPTION OF A NEW ACCOUNTING PRINCIPLE

In previous financial statements, the Foundation recorded its art and historical treasures (art work) as both a donation with an offsetting expense upon donation. However, effective July 1, 2012, the Foundation elected to capitalize all of its art work. Beginning net position in the amount of \$2,060,315 was restated for art work donated to the Foundation between July 1, 2000 and June 30, 2012. An additional \$537,050 was capitalized during the year ended June 30, 2013. All art work was valued by an independent appraisal at the date of donation.

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

Board of Directors
New Mexico Highlands University Foundation
And
Mr. Hector Balderas, 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 New Mexico Highlands University Foundation (Foundation) (a component unit of New Mexico Highlands University) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated November 15, 2013.

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.

Board of Directors
New Mexico Highlands University Foundation
And
Mr. Hector Balderas, New Mexico State Auditor

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 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 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 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.

Mess Adams LLP

Albuquerque, New Mexico
November 15, 2013

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
SUMMARY SCHEDULE OF PRIOR FINDINGS
June 30, 2013**

None

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013**

Current Year Findings

None

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION
EXIT CONFERENCE
Year Ended June 30, 2013**

The contents of this report were discussed in an exit conference held on November 14, 2013.

Representing New Mexico Highlands University Foundation:

Dr. Sharon Caballero, Foundation Executive Director

Representing Moss Adams LLP:

Scott Eliason, Partner

The financial statements were prepared with the assistance of Moss Adams LLP from the books and records of the New Mexico Highlands University Foundation.