



NEW MEXICO HIGHLANDS UNIVERSITY[®]
State of New Mexico | Audit Report | June 30, 2009



TABLE OF CONTENTS

NEW MEXICO HIGHLANDS UNIVERSITY

BOARD OF REGENTS AND PRINCIPAL OFFICERS	1
MESSAGE FROM THE PRESIDENT.....	2
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	6
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	20
Statement of Revenues, Expenses and Changes in Net Assets.....	21
Statement of Cash Flows.....	23
Notes to Financial Statements.....	25
SUPPLEMENTAL INFORMATION	
Combined Revenues and Expenditures Budget Comparisons (Restated).....	46
Unrestricted Current Funds Revenues and Expenditures Budget Comparisons (Restated)	47
Unrestricted Current Funds Summary of Instruction and General Revenues and Expenditures Budget Comparisons (Restated).....	48
Restricted Current Funds Revenues and Expenditures Budget Comparisons.....	49

TABLE OF CONTENTS

NEW MEXICO HIGHLANDS UNIVERSITY

SUPPLEMENTAL INFORMATION (CONTINUED)

Restricted Current Funds Summary of Instruction
and General Revenues and Expenditures Budget
Comparisons..... 50

SCHEDULES

Schedule of Individual Deposit Accounts 51

Schedule of Joint Powers Agreements and Memorandums
Of Understanding 55

Schedule of Expenditures of Federal Awards 56

Notes to the Schedule of Federal Expenditures 59

SINGLE AUDIT SECTION

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* 60

Report on Compliance With
Requirements Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance With
OMB Circular A-133..... 62

Summary of Prior Year Audit Findings 65

Schedule of Findings and Questioned Costs 66

Exit Conference 75

Board of Regents



Leveo V. Sanchez, Chairman

Leveo Sanchez is a dynamic leader with decades of domestic and international business success and distinguished public service. He is a New Mexico native and returned to the state in 2006. Over the years, Sanchez has shared his expertise tirelessly as a board member with numerous organizations. From 1966 through 2005, Sanchez established several successful businesses in governmental and management consulting, banking, real estate development and investment, property management, and export trading.



Jesus L. Lopez, Vice Chairman

Jesus L. Lopez was born in Las Vegas, New Mexico, where he has resided his entire life. He is a 1972 graduate of New Mexico Highlands University, majoring in Spanish and political science. He received his Juris Doctorate from the University of New Mexico School of Law, and has been a Las Vegas attorney for 30 years. Lopez has served as counsel to two presidents of Highlands University, and is a former district attorney. He also served 14 years as chairman of the West Las Vegas Board of Education. Always active in civil and political affairs, Lopez also served as chairman of the San Miguel County Democratic Party for more than a decade.



Nancy R. Long

Nancy Long is president and shareholder of Long, Pound & Komer, P.A., a Santa Fe based law firm, founded in 1987. Her practice is primarily in the areas of land use, transactional work, real estate and commercial representation. She has attained an AV rating, the highest attainable for the rating of lawyers in the United States by Martindale Hubbell. Ms. Long has represented large development projects in the City of Santa Fe as well as representing the County of Santa Fe in its real estate and land use cases. She is counsel to the College of Santa Fe and represents the board of the joint Santa Fe City and County water diversion project.



Pete Aguilar

New Mexico Highlands Regent Pete Aguilar earned three degrees from New Mexico Highlands University: an associates in electrical, a bachelor's in industrial arts and a master's in industrial arts and secondary education. Aguilar's experience ranges from operating a successful electrical contracting business, which he founded after receiving his bachelor's degree, to serving as assistant principal and principal of Santa Fe High School.



Gregory Rael

Student Regent Gregory Rael is completing his bachelor's degree in chemistry at New Mexico Highlands University. During his undergraduate tenure, Rael served as a senator for the Associated Students of New Mexico Highlands University for in 2006-2007. In fall 2007, he served as student body vice president then as interim student body president in the 07/08 academic year.

Principal Administrative Officials

Dr. James Fries President

Dr. Gilbert Rivera Vice President for Academic Affairs

Judy Cordova Vice President for Student Affairs

Dr. William Taylor Vice President for Finance & Administrative Services

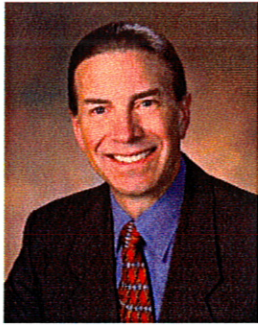
Lawrence Trujillo Associate Vice President for Finance & Administrative Services

Principal Financial Officials

Nesbitt Hagood Controller

Jesus Baquera Assistant Controller

From the President



Founded in 1893, New Mexico Highlands University is a multicultural university at which Hispanic, Native American, and African American students comprise more than 75% of the enrollment. As a master's level university, 40% of our students are pursuing master's degrees in the Schools of Education, Social Work, and Business as well as in several areas of strength in the arts and sciences. Highlands is widely regarded as northern New Mexico's university with centers that stretch from Raton in the northeastern corner to Farmington in the northwestern corner of the State. However, our students come from across the State, the country, and increasingly the world with 19 tribes, 42 states and 33 countries represented.

As you will see in this report, Highlands is fiscally sound and has been able to absorb cut-backs in state funding while still maintaining strong forward momentum. The University has been experiencing enrollment growth and is in the midst of an \$80M list of major capital improvements. A new 276 bed suite-style LEED Silver certified residence hall just opened and is fully occupied for the fall 2009. Major projects approved for the next two years include a new Student Union and major remodeling of the Lora Shields Science Building, Felix Martinez Building, Natatorium, and an historic stone building as a home for the Media Arts program. In addition, the campus will finish converting its heating system to free-standing high efficiency boilers in each building by late fall 2009 and will abandon the highly inefficient and fragile buried steam lines that have served the entire campus for many decades. The University is also well along with major updates of its Strategic Plan and a new Campus Master Plan.

The first university in the State to achieve wireless status, the University remains committed to ever more effective uses of technology in the delivery of its educational programs and administrative processes. An open admissions university, Highlands has instituted a diagnostic testing program to better evaluate each student's educational readiness for university work, and seeks to become a leader in value-added education. Students with developmental needs in both reading and mathematics complete a contract for success that provides them with a clear indication of available services and our expectations regarding their use of those services. Being admitted is relatively easy at Highlands, but degree-completion is not.

NMHU is committed to expanding its historic role as the educational leader and economic catalyst for the several school systems and communities in its primary service area, and to building stronger ties with the distinctive Hispanic and Native American traditions of the region. A "we" not "they" campus, we are creating a work and learning environment that fosters integrity, respect, tolerance, fairness, quality, equity, and accountability. The University is moving forward on all fronts by enhancing the educational opportunities and services available for our students.

Independent Auditors' Report

The Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the New Mexico Highlands University (University) as of and for the years ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the accompanying table of contents. We have also audited the budget comparisons presented as supplemental information for the year ended June 30, 2009, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of New Mexico Highlands University are intended to present the financial position, and the changes in net assets and cash flows for only that portion of the business-type activities of the State of New Mexico which are attributable to the transactions of New Mexico Highlands University. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, or the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

The University has restated its 2009 financial statements to correct material misstatements in the revenue, transfers and fund balances reflected in the actual column of the budget comparisons presented as supplemental information and Note 21 to the financial statements. Due to the material misstatements, our report on the University's 2009 financial statements, dated November 9, 2009, is not to be relied on. That report is replaced by this report on the restated 2009 financial statements. We reported the internal control deficiency that resulted in the material misstatements as a significant deficiency in our report on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, referred to below.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University at June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparisons referred to above present fairly, in all material respects, the budgetary comparisons for the year ended June 30, 2009 in conformity with the budgetary basis of accounting prescribed by the New Mexico Administrative Code, as more fully described in Note 1 to the financial statements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2009, except as it pertains to the budget comparisons and Note 21 to the financial statements, for which the date is May 5, 2010, on our consideration of internal control over financial reporting and our tests of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

The management's discussion and analysis on pages 6 through 19 is not a required part of the financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the basic financial statements, the discretely presented component unit, and budgetary comparison presented as supplemental information. The accompanying schedule of expenditures of federal awards, as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the accompanying supplemental information in the Schedule of Individual Deposit Accounts and Schedule of Joint Powers Agreement and Memorandums of Understanding, as required by the New Mexico State Audit Rule are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico

November 9, 2009, except for the budget comparisons and Note 21 to the financial statements, for which the date is May 5, 2010.

**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

Introduction

The following discussion and analysis provides an overview of the financial positions and analysis of New Mexico Highlands University. It is intended to make the University financial statements easier to understand and communicate our financial situations in an open and accountable manner. It provides an objective analysis of the "University's" positions and results of operations as of and for the year ended June 30, 2009. University management has prepared the financial statements and the related note disclosures in addition to the discussion and analysis. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

The University has one supporting foundation, **New Mexico Highlands University's Foundation, Inc.**, a not-for-profit organization. The financial information of the Foundation is presented in the financial statements as a "discretely presented component unit". The Foundation does not issue separate financial statements.

Understanding the Financial Statements

Financial highlights are presented in this discussion and analysis to help your assessment of the University's financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements which have the following five other parts.

Report of Independent Auditors presents an unqualified opinion by our auditors (an independent certified public accounting firm (Moss Adams LLP) on the fairness (in all material respects) of our financial statements.

Statement of Net Assets presents the assets, liabilities, and net assets of the University at a point in time (June 30, 2009). Its purpose is to present a financial snapshot of the University. They aid readers in determining the assets available to continue the Universities operations, how much the University owes to vendors, and investors, and a picture of net assets and their availability for expenditures in the University.

Statement of Revenues, Expenses, and Changes in Net Assets presents the total revenues earned and expenses incurred by the University for operating, non-operating, and other related activities during a period of time (the year ended June 30, 2009). Their purpose is to assess the University's operating results. This statement begins with a presentation of the operating revenues received by the institution. *Operating revenues* are revenues arising from exchange (earned) transactions. In a public University, such as New Mexico Highlands University, income from state government appropriations, although not earned, are heavily relied upon to pay operating expenses for almost all instruction and general programs. **However, government accounting standards define state appropriations income as non-operating revenue, causing the presentations of a large operating loss on the first page of the Statement of Revenues, Expenses and Changes in Net Assets.** The operating loss is offset by *non-operating revenues* in the next section of this statement, non-operating revenues and (expenses).

NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009

Statement of Cash Flows present cash receipts and payments of the University during a period of time (year ended June 30, 2009). Its purpose is to access the University's ability to generate net cash flows and meet its obligation as they come due.

Notes to the Financial Statements present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, number of undergraduates and graduates completing their degrees, and campus safety. Information about nonfinancial indicators is not included in this analysis, but can be obtained from the University's Office of Information (Sean Weaver – University Relations Director (slweaver@nmhu.edu)).

Financial Highlights

During the fiscal year ended June 30, 2009, the University's net assets decreased by 3.41 percent from \$76.1 million to \$73.5 million and cash and cash equivalents decreased by 37.5 %, from \$43.6 million to \$27.2 million. The decreases are primarily attributed to increased expenditures for renewals and replacements; endowment market value write downs; and overall increased cost of operations coupled with offsets of increases in capital assets.

CONDENSED STATEMENT OF NET ASSETS

Net Assets as of June 30, 2009 and 2008 (Thousands)		
	<u>2009</u>	<u>2008</u>
Assets:		
Current assets	\$34,825	\$54,239
Endowment investments	4,164	5,256
Capital assets, net of accum. depr.	<u>63,215</u>	<u>47,702</u>
Total assets	<u>102,204</u>	<u>107,197</u>
Liabilities:		
Current Liabilities	8,930	9,908
Non-current Liabilities	<u>19,676</u>	<u>21,097</u>
Total Liabilities	<u>28,606</u>	<u>31,005</u>
Net Assets:		
Invested in capital assets, net of related debt	43,473	45,892
Restricted for nonexpendable	4,725	6,003
Restricted for expendable	18,586	17,695
Unrestricted	<u>6,814</u>	<u>6,602</u>
Total net assets	<u>\$73,598</u>	<u>\$76,192</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

Discussion of Statement of Net Assets

Current assets decreased 35.7 percent during the year. The ending balance of \$34.8 million consists primarily of cash/cash equivalents (\$27.2 million) and receivables (\$5.2 million). Cash/cash equivalents decreased 37.5 percent. However, it should be noted that all cash and cash equivalents are essential and completely designated for ongoing operations including capital projects. The University attempts to maximize interest earnings by investing funds in the State Investment Council (\$4.1 million) and with the State of New Mexico Local Government Investment Pool (\$611 thousand). The University has abided by its short term and endowment investment policies thereby ensuring liquidity and safety. The University has implemented procedures to collect receivables in a timely manner and is well able to meet all its current financial obligations.

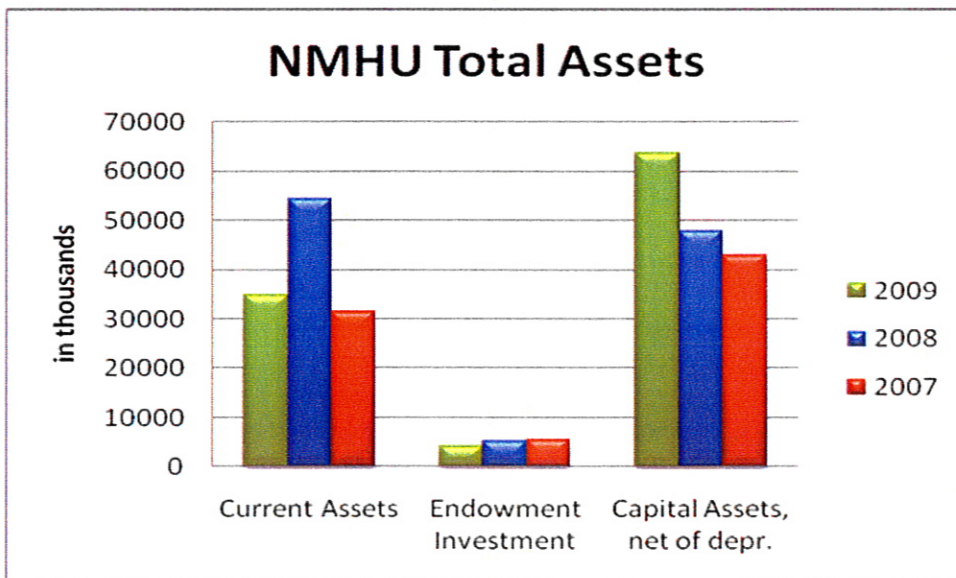
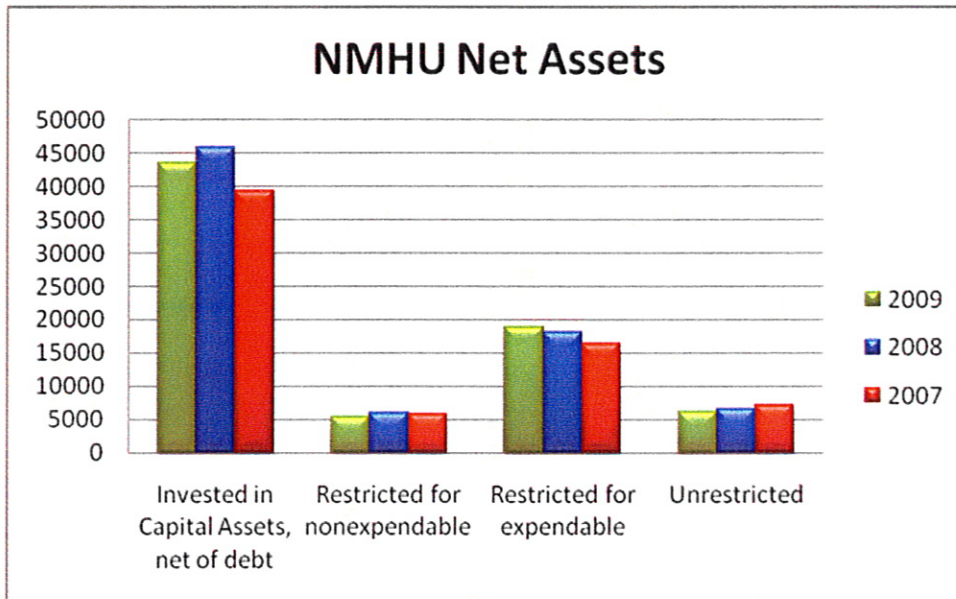
The total cost of **Capital assets** is comprised of land, buildings and improvements (\$101.9 million); and library books, equipment, vehicles, and furniture (\$24.9 million). All capital assets, except land and construction-in-progress, are being **depreciated**, meaning a percentage of the assets' cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$63.2 million (\$142.0 million cost less \$78.8 million accumulated depreciation).

Total liabilities of \$28.6 million constitute 28 percent of total assets and consist primarily of payables/accrued liabilities and accrued compensated absences (\$6.4 million), bonds/notes payable (\$19.7 million), and deferred revenue (\$2.4 million). Deferred revenue represents amounts prepaid by students, auxiliary enterprises customers, grantors and contractors (or amounts received before the University met all of its requirements for income recognition). These amounts will be recognized as revenue in future period after all conditions have been satisfied.

Total net assets decreased by \$2.6 million, or 3.4 percent, during the year. (Over a two-year period, net assets increased \$4.8 million or 7 percent). The ending balance of \$73 million is derived by deducting total liabilities from total assets and shows the composition of the University's equity. Restricted for nonexpendable (\$4.7 million) represents the University's endowment corpus, whereas restricted for expendable (\$18.5 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$6.8 million) are available to the University for any lawful purpose under the full discretion of management.

**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

The **Foundation's net assets** decreased \$.30 hundred thousands, from \$4.5 million to \$4.2 million, due to the fact that expenditures were higher than the revenue level.



NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Activities for the years ended June 30, 2009 and 2008 (Thousands)		
	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Tuition and Fees, net	\$ 8,678	\$ 7,984
Grants & Contracts	17,065	15,514
Sales and Services / Other Revenue	<u>4,050</u>	<u>2,915</u>
Total Operating Revenues	<u>29,793</u>	<u>26,413</u>
Operating Expenses:		
Instruction and General	34,602	32,933
Other Operating Expenses	29,858	22,913
Depreciation	<u>5,234</u>	<u>4,899</u>
Total Operating Expenses	<u>69,694</u>	<u>60,745</u>
Operating Loss	<u>(39,901)</u>	<u>(34,332)</u>
Non-Operating Revenue:		
State general fund appropriations	33,241	35,511
Interest and investment income/(loss)	<u>(670)</u>	<u>787</u>
Total Non-Operating Revenue:	<u>32,571</u>	<u>36,298</u>
(Loss) income before other revenue, expenses, gains, losses	(7,330)	1,966
Interest on indebtedness	(1,221)	(317)
Capital grants and gifts, net	5,957	5,761
Other	<u>-</u>	<u>3</u>
(Decrease) increase in net assets	(2,594)	7,413
Net assets, beginning	<u>76,192</u>	<u>68,778</u>
Net assets, ending	<u>\$73,598</u>	<u>\$76,192</u>

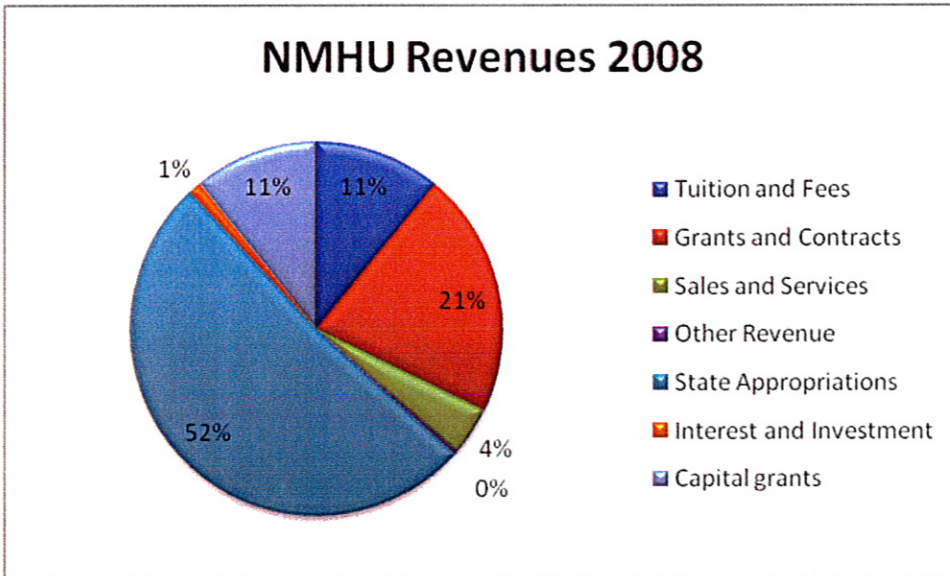
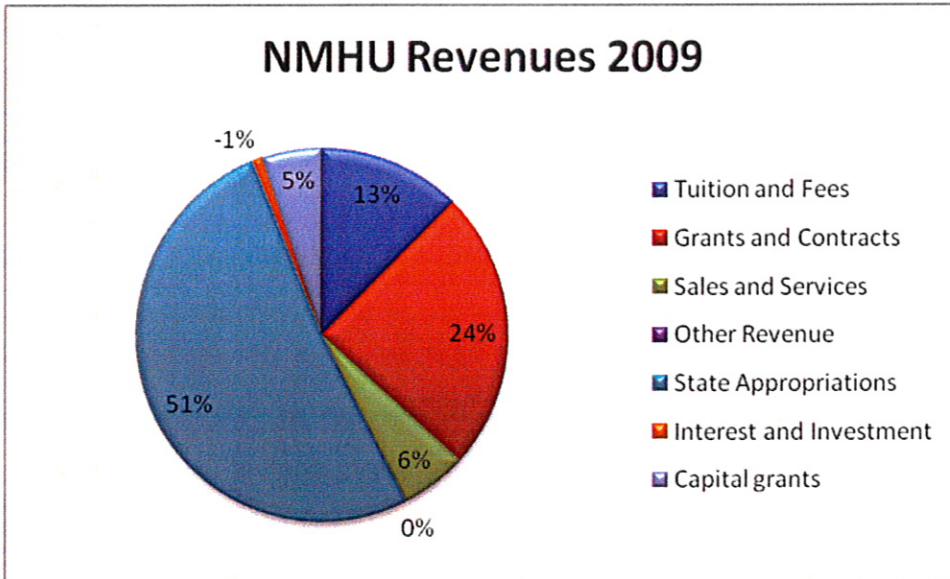
**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

Discussion of Statement of Revenues, Expenses and Changes in Net Assets

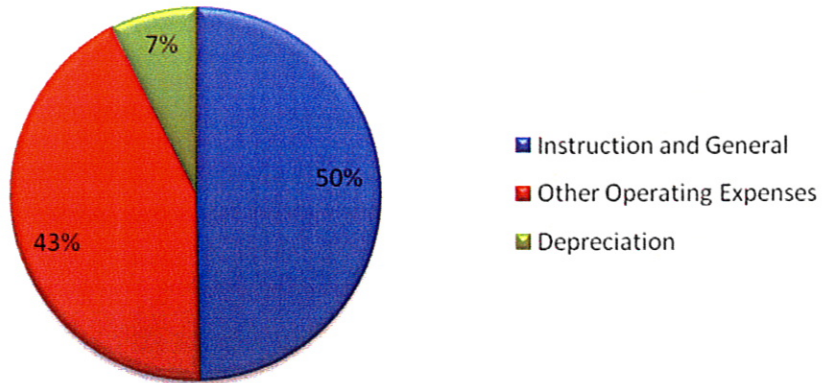
This statement shows the components that decreased, in the aggregate. The University's net assets decreased by \$2.5 million during the year. Operating expenses (\$69.6 million) are subtracted from operating revenues (\$29.7 million), resulting in an "operating loss" (\$39.9 million). State general fund appropriations (\$33.2 million), are not included as operating revenue; however, it is reflected as non operating revenue, because they are provided to the University without the state receiving commensurate goods and services in exchange. State general fund appropriations are essential for the University to carry out its instructional and public service mission. **"Income/ (Loss) before other revenue, expenses, gains and losses"** was (\$7.3 million). Added to this loss is \$5.9 million in capital grants and gifts (federal and state funds designated for construction projects).

State general fund appropriations decreased by \$2.2 million (6.8%). The state appropriation for general funds for year ended June 30, 2009 was \$33.2 million as compared to state appropriation for year ended June 30, 2008 at \$35.5 million. Furthermore, included in revenues under state appropriations are plant funds and endowments. The plant funds for year ended June 30, 2009 were \$1.1 million and the endowment fund for year ended June 30, 2009 was \$.5 million.

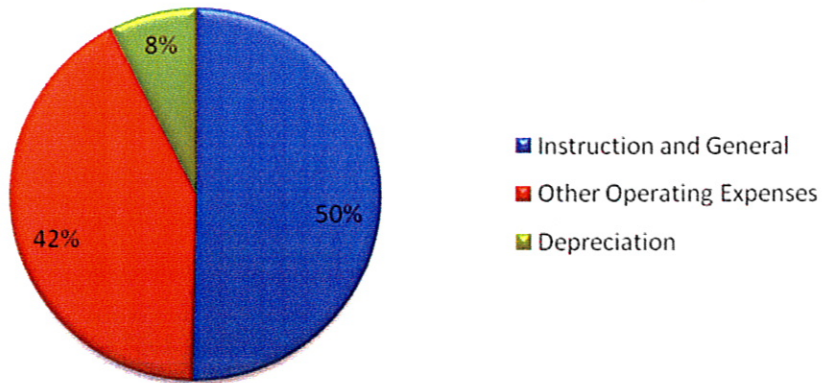
NEW MEXICO HIGHLANDS UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 June 30, 2009



NMHU Operating Expenses 2009



NMHU Operating Expenses 2008

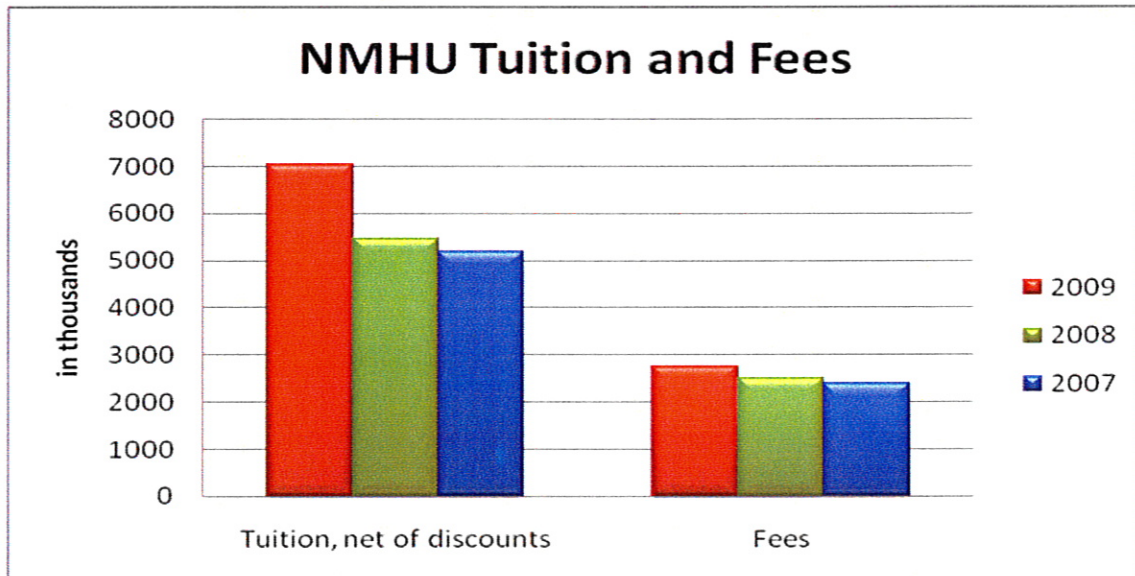


**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

**Analysis of tuition and fees revenue
(Thousands)**

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	
Tuition	\$7,049	\$6,290	759	10.7%
Fees	<u>2,760</u>	<u>2,672</u>	<u>88</u>	3.19%
Subtotal	9,809	8,962	847	8.64%
Tuition discounts/allowance	<u>(1,131)</u>	<u>(978)</u>	<u>153</u>	15.3%
Net	<u>\$8,678</u>	<u>\$7,984</u>	<u>694</u>	8.0 %

Tuition and fees, net of discounts and allowances, increased by 8 percent. However, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees, the latter increased by \$.84 million, or 8.64 percent.



**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

CONDENSED STATEMENT OF CASH FLOWS

Statement of Cash Flows for the Years ended June 30, 2009 and 2008 (thousands)		
	2009	2008
Cash flows from operating activities:		
Net cash used by operating activities	\$(32,241)	\$(29,236)
Net cash provided by noncapital financing activities	38,159	39,270
Net cash flow provided by investment activities	(973)	738
Net cash used by capital & related financing activities	<u>(21,346)</u>	<u>10,352</u>
Net decrease in cash and cash equivalents	(16,398)	21,124
Cash and cash equivalents, beginning of year	<u>43,674</u>	<u>22,549</u>
Cash and cash equivalents, ending of year	<u>\$ 27,276</u>	<u>\$ 43,673</u>

Discussion of Statement of Cash Flows

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University had a \$16.3 million net decrease during the year, resulting in an ending cash balance of \$27.2 million. Of the \$43 million that was accumulated at the beginning of the fiscal year, \$27 million was spent for capital projects. This included the new dormitory, and renovations of Burris Hall, Student Center, and the Science Annex. Furthermore, we had a loss in our endowments of \$1 million. The overall net effect of our cash flow activities is a net decrease in cash and cash equivalents of \$16.3 million.

Discussion of Budget Comparisons

Included in this audit report are summary schedules of original budget, final budget, actual results and variances from the final budget. Schedules are prepared on the budgetary basis versus the accrual basis of accounting in a fund accounting format as required by the New Mexico State Auditor.

On the **Restricted Current Funds** and **Restricted Instruction & General** schedules, significant variances between the original budget and final budget are due to the fact that at the time of submission of the original budget (end of April), the amount of grant and contract awards for the following year is difficult to project accurately, because it is often not known which grants and contracts will be funded. Significant variances between actual results and the final budget are primarily due to the fact that most federal grants have a budget period different from the University's fiscal year and that typically, the entire grant budgets are included in the final budget column, whereas actual results only reflect part of the grants' budget period.

**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

Discussion of Significant Capital Projects

Highlands University continues to invest heavily in improvements to its campus. Some projects have been in progress for years. Others are the early results of the development of the University Master Plan, an effort that began in 2009. Capital projects range from the construction of large scale buildings, such as our new residence hall and our planned new student center, to small enhancements upgrading the look and feel of the campus, such as improved signage and lighting. Together, these projects will help revitalize the campus, allowing us to better meet the needs of the Highlands' community.

This focus on infrastructure improvements began in FY06, when the New Mexico Higher Education Department undertook a statewide assessment of facility needs. As a result, the 2008 legislative session provided for an additional \$40.0 million dollars distributed through the Building Renewal and Replacement (BR&R) formula to all higher education entities.

Highlands was the recipient of approximately \$1.7 million from this fund, plus additional appropriations for infrastructure, deferred maintenance, master planning, renovation, equipment, and \$1 million toward a new student center. Ultimately, the University received capital grant appropriations of \$5.7 million designated for physical plant improvements at the main campus. In the spring of 2008, an additional \$1.8 million was requested from the legislature to complete specific infrastructure improvements. The University has also sought funding from general obligation bonds, which have been approved by the legislature and the citizens of New Mexico.

Funding for capital projects underway totals \$31.6 million. The total projected cost for recently completed and currently planned capital outlay projects is approximately \$80 million. Major highlights include:

- \$19.4 million for a new 276 bed residence hall (project completed)
- \$5.6 million for renovation of the Science Annex (project completed)
- \$3.0 million for roof replacement and a new HVAC system at Burriss Hall (project completed)
- \$4.0 million for renovation of the Golf Course (project completed)
- \$1.8 million toward remodeling the Lora Mangum Shields Science Building (in progress)
- \$3.5 million for creation of a one-stop shop for student services at the Felix Martinez building (in planning stage)
- \$20.0 million toward a new student center (in planning stage)
- \$7.4 million for renovation of the Trolley Building for media arts (in planning stage)
- \$5.3 million in deferred maintenance capital projects (in progress)

**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

Five of these projects plus the campus master plan are discussed below.

New Residence Hall

The new residence hall is the first such building on campus since the 1960s. It replaces the Conquistador Residence Hall that was recognized as the tallest building in Northern New Mexico. The new residence hall provides a critical upgrade in student residential facilities. It houses 276 students in 89 spacious apartment-style suites that feature private bedrooms, a kitchenette, living room, and bathrooms. The new residence hall will be the first in the state to attain Leadership in Energy and Environmental Design (LEED) Silver Certification for sustainable building design and construction.

The University issued revenue bonds through the New Mexico Finance Authority in the amount of \$19.7 million to fund the residence hall project. The loans will be paid off solely through student dorm fees. The project was completed in July 2009 and remained within budget.

New Student Center

The University plans to begin construction of a new student center in late 2009. The building will be designed to meet the needs and expectations of current and future students. Together with the new residence hall and other improvements, large and small, it will help create an environment that serves to help the university recruit and retain students.

The new student center will be approximately 55,000 to 65,000 square feet and will be located near the corner of 8th Street and National Avenue. It will serve as the home for numerous student services. Some of the services that will be housed in the building include: study areas; computer labs; offices for Native American Services, International Student Services, Student Activities, and student clubs; a board room for student and public meetings; a student art gallery; a copy center; the post office; the bookstore; and dining facilities adequate to serve 400 students (compared to the current capacity of 250 students). As with the new residence hall, it is designed to meet LEED Silver Certification.

Trolley Building Renovation

The University's Board of Regents and Administration have made attaining funding for the renovation of the "Trolley Building" their top capital priority for the 2010 legislative session. This historic building is envisioned as the new home for the University's successful media arts program.

The Media Arts Program has demonstrated great success in educating skilled artists and designers and providing them with exciting, hands-on training. However, the facility currently housing the program is in poor condition and doesn't meet the program's needs. Classroom, studio and office space are all inadequate, particularly given the projected growth of the program. The media arts faculty and students looked around their community and found an empty, historic building which they determined would provide an ideal home for their program.

**NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

The Las Vegas Railroad and Power Company Building, or Trolley Building, was erected in 1905. The building is listed in the State Register of Cultural Properties and the National Register of Historic Places. The Office of Cultural affairs has indicated it would be pleased to support New Mexico Highlands University's efforts to repair and reuse this structure. The idea of using a historic building to house a cutting-edge technology program is one way that Highlands honors its history and culture while at the same time immersing its students in 21st century educational opportunities. The preservation of this building and its transformation into a media arts facility will be the fifth building on our campus to be included on the National Register of Historic Places.

Rodgers Hall Renovation

The Rodgers Hall is a historic two story building that was constructed in 1936 as the University library. It currently houses administrative functions, including the Offices of the President, the Vice President for Finance and Administration, the Vice President for Academic Affairs, the Business Office, the Registrar, and the Human Resources Office.

The building is in need of improvements to its major systems. Renovation of Rodgers Hall will address issues such as ADA compliance, heating and cooling, upgrading of facilities, and overall improvements to space utilization. The University is requesting funding from the legislature for this project.

Old Student Center Renovation

The old student center was originally built as the University gymnasium and later retrofitted to serve as the student center. Upon completion of the new student center in the Fall of 2011, the University plans to renovate this building for use by the Athletics department. It will include office space for the Athletic Director and coaches as well as provide adequate space for the Wrestling program.

Campus Master Plan

The University is in the process of developing a new campus master plan. The projects described above form the center piece of the NMHU Campus Master Plan. Highlands has contracted with a space design and planning firm to review current facilities and complete a comprehensive, forward-looking campus plan. During spring 2009, semester a series of meetings was held with university stakeholders, resulting in several town-hall style meetings to discuss with the Las Vegas community the results of the firm's review and several potential plans for campus development.

Some important findings from the review include: 1) Highlands has adequate classroom space for an additional 1,000 students and 2) the plan also identified a general level of work to bring each existing building up to acceptable standards, and has classified each building according to its relative costs for that work.

NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009

One of the most interesting aspects of the campus master plan is that it addresses the physical points of entry between the Highlands campus and the rest of the Las Vegas community. The plan identifies several major points of entry (such as 8th Street and National Avenue, and 9th Street and Washington Avenue) which introduce travelers to the University. The plan discusses the placement of buildings, signage, lighting, and landscaping that will highlight these areas as distinctive and welcoming introductions to the campus.

The plan also addresses the issue of the University's main campus as a pedestrian space. We want our campus to highlight easy access between heavily used resources, and to encourage frequent and safe interaction among members of our community. The necessary contrast to a pedestrian space, of course, is that adequate and convenient parking must be a part of the finalized plan.

Factors Impacting Future Periods

At this time, the national economic recession and the State of New Mexico's budget have the University's attention. On August 14, 2009, the State's Departments of Finance and Administration and Taxation and Revenue reported the latest economic and revenue forecasts to the Legislative Finance Committee. The condition was serious. The national economy had weakened more than expected and the New Mexico economy had followed the downward trajectory. Consequently, the State's revenue position has weakened considerably. The new revenue forecast shows a \$428 million budget deficit for Fiscal Year 2010. Educational Institutions will be required to absorb a portion of that deficit, however, at the present time, an amount is unknown. It is safe to state that the amount of reduction required in the University's budget will be significant. The University maintains sufficient Net Assets and budgetary flexibility to absorb anticipated budget reductions.

Request for Additional Financial Information

This financial report is designed to provide the executive and legislative branches of the State of New Mexico, the public, the University's vendors and other interested parties with a general overview of the financial position as of June 30, 2009 and the results of operations, cash flows, and budget variances for the year ended for New Mexico Highlands University.

If you have any questions about this report or need additional financial information contact the following:

New Mexico Highlands University
Office of University Relations
PO Box 9000
Las Vegas, NM 87701
www.nmhu.edu
Phone: (505) 454-3387
Fax: (505)454-3386

NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2009

	<u>Primary Institution</u>	<u>Component Unit</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 27,275,562	\$ 103,842
Assets held by others (Note 8)	1,058,924	-
Accounts receivable (Note 3) (net of an allowance of \$3,000,771)	2,531,035	-
Grants receivable (Note 6) (net of an allowance of \$411,630)	1,558,375	-
Due from State of New Mexico (Note 7)	1,139,228	-
Other receivables	124,499	222,479
Inventories (Note 4)	1,068,689	-
Prepaid assets	68,897	3,628
Total current assets	<u>34,825,209</u>	<u>329,949</u>
Noncurrent Assets		
Investments (Note 5)	4,164,166	3,307,930
Capital assets, net of accumulated depreciation (Note 9)	63,214,234	2,410,013
Total noncurrent assets	<u>67,378,400</u>	<u>5,717,943</u>
Total assets	<u>\$ 102,203,609</u>	<u>\$ 6,047,892</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 4,982,430	\$ 10,134
Accrued compensated absences (Note 11)	797,137	-
Deferred revenue (Note 14)	2,428,505	-
Bonds payable-current portion (Note 11)	477,933	-
Note payable-current portion	-	249,937
Accrued interest payable	244,145	2,363
Total current liabilities	<u>8,930,150</u>	<u>262,434</u>
Noncurrent Liabilities		
Accrued compensated absences	412,901	-
Bonds payable long-term portion (Note 12)	19,262,918	-
Assets held for others	-	608,683
Note payable-long term portion	-	906,442
Total noncurrent liabilities	<u>19,675,819</u>	<u>1,515,125</u>
Total liabilities	<u>28,605,969</u>	<u>1,777,559</u>
NET ASSETS		
Invested in capital assets, net of debt	43,473,383	1,093,858
Restricted for		
Nonexpendable		
Restricted for scholarships and grants	4,725,125	2,427,632
Expendable		
Restricted for scholarships and grants	-	1,009,352
Loans	1,154,194	-
Capital projects	14,071,995	-
Debt service	3,359,892	-
Unrestricted (deficit)	6,813,051	(260,509)
Total net assets	<u>73,597,640</u>	<u>4,270,333</u>
Total net assets and liabilities	<u>\$ 102,203,609</u>	<u>\$ 6,047,892</u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2009

	Primary Institution	Component Unit
OPERATING REVENUES		
Tuition and fees	\$ 9,809,432	\$ -
Tuition discounts and allowances	(1,131,097)	-
	8,678,335	-
Federal grants and contracts	11,890,972	-
State and local grants and contracts	3,173,618	-
Private grants and contracts	2,000,571	-
State land, permanent fund and investment income (loss)	296,009	(651,276)
Sales and services of auxiliary enterprises	3,847,913	-
Contributions	-	1,084,519
Other	(94,288)	479,359
Total operating revenues	29,793,130	912,602
EXPENSES		
Instruction and general		
Instruction	17,005,859	-
Academic support	2,910,961	-
Student services	3,669,458	-
Institutional support	5,974,463	-
Operations and maintenance support	5,041,397	-
	34,602,138	-
Student social/cultural development	826,170	-
Research	3,130,152	-
Public service	9,249,586	-
Student aid grants and stipends	6,740,642	174,284
Tuition discounts and allowances	(1,131,097)	-
Auxiliary enterprises	3,886,892	-
Athletics	2,835,989	-
Other expenditures	4,210,725	927,827
Amortization	109,307	-
Depreciation	5,233,841	57,698
Total operating expenses	69,694,345	1,159,809
Operating loss	\$ (39,901,215)	\$ (247,207)

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (CONTINUED)
Year Ended June 30, 2009

	<u>Primary Institution</u>	<u>Component Unit</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	\$ 33,241,294	\$ -
Interest and investment loss	(670,556)	-
Net non-operating revenues	<u>32,570,738</u>	<u>-</u>
Loss before other revenues, expenses, gains and losses	(7,330,477)	(247,207)
OTHER		
Capital grants and gifts	6,289,124	-
Reversion of capital appropriations	(332,639)	-
Interest on indebtedness	(1,220,858)	-
Other	<u>-</u>	<u>-</u>
Decrease in net assets	(2,594,850)	(247,207)
NET ASSETS		
Net assets - beginning of year	<u>76,192,490</u>	<u>4,517,540</u>
Net assets, end of year	<u>\$ 73,597,640</u>	<u>\$ 4,270,333</u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2009

	<u>Primary Institution</u>
Cash Flows from Operating Activities	
Contributions	\$ -
Tuition and fees	9,089,749
Grants and contracts	17,001,883
Sales and services of educational activities	3,847,913
Other operating receipts	1,565,752
Payments to employees for salaries and benefits	(36,840,967)
Payments to suppliers	(26,905,691)
Net cash used by operating activities	<u>(32,241,361)</u>
Cash Flows from Noncapital Financing Activities	
State appropriations	33,241,294
Capital grants	4,917,648
Net cash provided by noncapital financing activities	<u>38,158,942</u>
Cash Flows from Investment Activities	
Purchases of investments	-
Unrealized loss on assets	(1,060,567)
Interest received on investments	87,070
Net cash used by investment activities	<u>(973,497)</u>
Cash Flows from Capital and Related Financing Activities	
State appropriations for capital activities	8,111,051
Cash paid for capital assets	(27,643,797)
Repayments of bond payable	(1,810,001)
Proceeds from note	-
Net cash (used) provided by capital and related financing activities	<u>(21,342,747)</u>
Net (decrease) increase in cash and cash equivalents	(16,398,663)
Cash and cash equivalents, beginning of year	<u>43,674,225</u>
Cash and cash equivalents, end of year	<u>\$ 27,275,562</u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
 STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended June 30, 2009

Primary
 Institution

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY
 OPERATING ACTIVITIES

Operating loss	\$	(39,901,215)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense		5,233,841
Changes in assets and liabilities		
Receivables		2,112,189
Inventories		(273,528)
Other assets		1,176,878
Accounts payable and accrued expenses		(360,445)
Deferred revenue		(400,022)
Compensated absences		170,941
Net cash used by operating activities	\$	<u>(32,241,361)</u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creation and Purposed Entity. New Mexico Highlands University (University) formerly known as New Mexico Normal University, was established in 1893 when New Mexico was still a territory. The institution began operations in October 1898. In 1917, the institution became a four-year teacher training college awarding the Bachelor of Arts degree. Graduate work in certain departments, leading to the degrees of Master of Arts and Master of Science, were added in the late 1920's and the mid-1950's, respectively. In 1941, the New Mexico Legislature changed the name of the institution to New Mexico Highlands University. The University's campus, including its golf course, encompasses approximately 176 acres in Las Vegas, located in the northeastern portion of New Mexico.

Governance. The University is controlled and managed by a Board of Regents consisting of five members appointed by the Governor, with the advice and consent of the New Mexico Senate, for a term of six years, except for the Student Representative, who serves for a term of two years. Not more than three of the Regents shall belong to the same political party at the time of their appointment. Four of the five members of the Board must be qualified electors of the State, and the fifth member shall be a member of the student body of the institution. The Board of Regents constitutes a body politic and corporate, and has the power to sue and be sued, to contract and be contracted with, and the title to all property belonging to the University is vested in this corporate body and successors.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's 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. All significant intra-agency transactions have been eliminated. The University applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Basis of Presentation and Financial Reporting Entity. New Mexico Highlands University and its component unit present their financial statements in accordance with Governmental Accounting Standards Board (GASB) 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; GASB 35 – Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities; GASB 37 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; And GASB 38 – Certain Financial Statement Note Disclosures. This financial report provides an entity-wide perspective of the University's assets, liabilities, and net assets, revenues, expenses and changes in net assets, and cash flows.

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The University has adopted Governmental Accounting Standards Board Statement No 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14 (GASB 39). GASB 39 provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as discretely presented component units based on the nature and significance of their relationship with the University. As required by GASB 14 and 39, these basic financial statements present the University and its component unit entity for which the University is considered to be financially accountable. This entity was selected for inclusion based on criteria as set forth in GASB 14 and 39. In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the University. The decision to include a potential component unit in the University's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following discretely presented component unit is included in these financial statements:

- **New Mexico Highlands Foundation, Inc. (Foundation)**

The Foundation was organized as a not-for-profit New Mexico corporation under Section 501(c)(3) of the Internal Revenue Code. The Foundation receives support from contributions, earnings on investments and rental of real estate. The Foundation does not issue separate financial statements.

The University adopted GASB 40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement 3. The GASB 40 statement addresses common deposit and investment risk related to custodial credit risk, credit risk, concentration of credit risk, interest rate risk and foreign currency risk. It also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates as well as identification of deposit and investment policies related to the risks.

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.

Budget. The University follows the requirements established by the New Mexico Higher Education Department (HED) in formulating its budgets and in exercising budgetary control. It is through the HED's policy that, when the appropriation has been made to the University, its Board of Regents can, in general, adopt an operating budget within the limits of available income.

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Procedures for Approval of Operating Budgets

1. The institution submits an original budget approved by the institution's regents to the HED's office by May 1st.
2. The HED meets in June and acts on approval of the budgets.
3. The budgets, as approved by the HED, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1.

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for expenditures to the University in subsequent years pursuant to the General Appropriation Act of 2004, Section 4, J (Higher Education).

Budgetary Control. Total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary control are as follows: (1) unrestricted and restricted expenditures are considered separately; (2) total expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; and (4) within the plant funds budget, the items of budgetary control are major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service. Budget revisions must be approved by the executive secretary of the HED and then by the Budget Division of the Department of Finance and Administration.

The Accompanying Schedule of Budget and Actual – Current and Plant Funds, for year ended June 30 2009, (the “schedule”) is prepared on the basis of accounting prescribed by the State of New Mexico, Higher Education Department (the Department). The Department requires budgets for current restricted, current unrestricted and plant fund revenues and expenditures on a basis consistent with the financial reporting model used by the University prior to implementation of GASB Statements No. 34 and 35. Additions to capital assets and debt principal retirements are reported as expenditures on the budget basis, but not on the basis required by generally accepted accounting principles (GAAP). Depreciation expense, scholarship allowance, Perkins Loans/Endowment Scholarship and Endowment/Agency expenditures are GAAP requirements not included on the budget basis submitted to HED.

Cash and Cash Equivalents. For purposes of the statement of cash flows, cash and cash equivalents include demand, savings, and money market accounts with an original maturity of 3 months or less.

Investments. Certain investments such as debt and equity securities and pooled investment funds are recorded at market value in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gain or (loss) on the carrying value of investments are reported as investment income in the statements of revenues, expenses and changes in net assets. The carrying value of investments is based on quoted market prices.

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments are made in accordance with the Constitution of the State of New Mexico and the policies of the Board of Regents.

Inventory. Inventories of supplies and materials held for sale or use are stated substantially at the lower of cost (first-in, first-out) or market value.

Income Taxes. The University, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the University are deductible by donors as provided under Section 170 of the Internal Revenue Code.

Accounts Receivable. The University records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses.

Deferred Income. Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May 2009 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2009. Deferred revenues also include amounts received from grant and contract sponsors that have not been earned.

Noncurrent Investments. Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets.

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. For equipment (including software), the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. 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 University does capitalize historical treasures or works of art.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for buildings, 15 years for land improvements, 10 years for library books, 5 to 12 years for furniture, fixtures and equipment and 5 years for autos.

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences. The University accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. The current portion of the accumulated vacation leave is based on the previous year's data. Accrued vacation up to 240 hours is recorded at 100% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA).

Noncurrent Liabilities. Noncurrent liabilities include (1) principal amounts of revenue bonds payable and notes payable; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

Invested in Capital Assets, Net of Related Debt. This represents the University'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 invested in capital assets, net of related debt.

Restricted Net Assets - Nonexpendable. Nonexpendable restricted net assets 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 Assets - Expendable. Expendable restricted net assets are resources that the University is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

Unrestricted Net Assets. Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted, and then toward unrestricted resources.

NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues. The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Non-operating Revenues. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Special Appropriation. The University receives special appropriations during the year. When an expense is incurred that can be paid using either unrestricted or special appropriation resources, the University's policy is first apply the expense toward the special appropriation. The special appropriation funds are non-reverting and were spent during the year.

Presentation. Certain classifications of information have been made to conform to current year presentation.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit with various financial institutions, and an investment in the New Mexico State Treasurer Local Government Investment Pool.

	New Mexico Highlands University	Component Unit NMHU Foundation
Cashier's cash	\$ 15,660	-
Bank deposits	25,307,371	103,842
Bank of Albuquerque	1,340,652	-
State Treasurer Local Government Investment Pool	611,879	-
	<u>\$ 27,275,562</u>	<u>103,842</u>

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Section 6-10-17, New Mexico Statutes requires that all depositories of the University provide collateral equal to at least one-half of the amount of uninsured public monies on deposit. Per State Auditor's Rule 2.2.2.10 N. Public Monies: cash on deposit with the State Treasurer does not require disclosure of specific pledged collateral for amounts held by the State Treasurer.

As of June 30, 2009, none of the University's bank balance of \$27,275,562 was exposed to custodial credit risk.

Credit Risk. The University has money market funds and investments in the local government investment pool that are considered cash. As of June 30, 2009, the University's money market accounts are backed by commercial paper and other debt instruments that are rated AAA by Moody's Investor Service.

Interest Rate Risk. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

New Mexico State Treasurer Local Government Investment Pool. As of June 30, 2009, the State Treasurer Investment Pool was paying the University .2759 percent per annum. The interest rate is determined by the State Treasurer. The following applies to the State Treasurer Investment Pool:

- The investments are valued at fair value based on quoted market prices as of the valuation date.

The New Mexico State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The reader should examine the State Treasurer's separately issued financial statements for such disclosures.

The pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the perspective amounts deposited in the fund and the length of time the amounts fund were invested; and participation is voluntary. The State Treasurers rating of investments are for an average maturity of 42 days and the rating is AAAM by Standard & Poor's.

NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 3. ACCOUNTS RECEIVABLE

At June 30, 2009, accounts receivable consisted of the following:

Student accounts receivable	\$ 4,145,164
Perkins loan receivable	1,177,383
Las Vegas bookstore receivables	180,718
Rio Rancho bookstore receivables	<u>28,541</u>
Total student accounts receivable	5,531,806
Allowance for Uncollectible	<u>(3,000,771)</u>
Accounts Receivable, net	<u><u>\$ 2,531,035</u></u>

NOTE 4. INVENTORIES

At June 30, 2009, inventories of the University are summarized as follows:

Facilities services	\$ 298,778
Las Vegas book store	369,941
Rio Rancho book store	240,864
Athletics	152,646
Golf Course	<u>6,460</u>
Total inventory	<u><u>\$ 1,068,689</u></u>

NOTE 5. INVESTMENTS

At June 30, 2009, investments of the University and its component unit are summarized as follows:

	New Mexico Highlands University	Component Unit NMHU Foundation
State investment council	\$ 1,824,873	-
State investment council (land grant permanent fund)	2,339,293	-
Mutual funds	-	289,168
Common stocks	-	1,959,859
U.S. obligations	-	212,667
U.S. agency obligations	-	158,557
International bonds	-	12,891
U.S. corporate bonds	-	<u>674,788</u>
Total investments	<u><u>\$ 4,164,166</u></u>	<u><u>3,307,930</u></u>

Interest Rate Risk. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 5. INVESTMENTS (CONTINUED)

Credit Risk. The University has an investment policy that requires an allocation percentage of a maximum of 75% and a minimum of 35% of the funds will be invested in both equities and fixed income securities. As of June 30, 2009, the University's investment in the state investment pool fixed income funds consists of the Core Bond Fund, which consists of commercial paper and other debt instruments that are rated between AA-2 and AA S&P by Moody's Investors Service.

Foundation Interest Rate Risk. At June 30, 2009, the Foundation had the following investments subject to interest rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
U.S. obligations	\$ 212,667	4.35
U.S. agency obligations	158,557	4.59
International bonds	12,891	1.46
U.S. corporate bonds	674,788	3.30
	<u>\$ 1,058,903</u>	
Portfolio weighted average maturity		3.43

The Foundation is not required to follow State Statutes and therefore no collateralization is required. As of June 30, 2009, none of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

Foundation Credit Risk. As of June 30, 2009, the Foundation had the following investments subject to investment rate risk:

U.S. Corporate Bonds:

<u>Rating</u>	<u>Fair Value</u>
No Rating	\$ 7,960
AA	118,505
A	439,496
BAA	81,792
BBB	27,035
	<u>\$ 674,788</u>

International Bonds:

<u>Rating</u>	<u>Fair Value</u>
A	\$ 4,436
BAA	4,495
BBB	3,960
	<u>\$ 12,891</u>

U.S. Agency Obligations:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 158,557

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 5. INVESTMENTS (CONTINUED)

The endowment spending policy is in concert with the long term endowment management philosophy of the University, which is to preserve the permanent viability of the endowment. The University 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 temporarily restricted net assets 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). During the current year, donor-restricted endowments had net depreciation of \$583,418 and investment income of \$85,858.

NOTE 6. GRANTS RECEIVABLE

At June 30, 2009, grants receivable consisted of the following:

Federal grants	\$ 522,372
State grants	514,387
Private grants	519,420
Other grants	<u>413,826</u>
Total grants receivable	1,970,005
Allowance for uncollectible grants receivable	<u>(411,630)</u>
Grants receivable, net	<u>\$ 1,558,375</u>

NOTE 7. DUE FROM STATE OF NEW MEXICO

The amount of \$1,139,228 on the Statement of Net Assets consists of amounts due for capital projects as of June 30, 2009.

NOTE 8. ASSETS HELD BY OTHERS

As of June 30, 2009, assets held by others consist of the following:

New Mexico Finance Authority Debt Service Fund 2008 Issue	\$ 450,241
Foundation Endowment	<u>608,683</u>
Total assets held by others	<u>\$ 1,058,924</u>

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

The following schedule presents the changes in capital assets and accumulated depreciation by major asset category for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Capital assets not being depreciated				
Land	\$ 2,041,632	-	-	2,041,632
Artwork	71,650	-	-	71,650
Construction-in-progress	4,594,255	10,394,694	-	14,988,949
Total capital assets not being depreciated	\$ 6,707,537	10,394,694	-	17,102,231
Other capital assets				
Land improvements	\$ 9,667,377	5,725,319	-	15,392,696
Buildings	81,490,337	3,015,365	-	84,505,702
Furniture, fixtures and equipment	15,754,715	1,025,010	17,068	16,762,657
Library materials	7,949,823	376,438	112,308	8,213,953
Total other capital assets	\$ 114,862,252	10,142,132	129,376	124,875,008
Accumulated depreciation for				
Land improvements	\$ (3,312,033)	(939,339)	-	(4,251,372)
Buildings	(50,908,544)	(2,421,529)	-	(53,330,073)
Furniture, fixtures and equipment	(12,714,169)	(1,473,333)	226,436	(13,961,066)
Library materials	(6,933,162)	(399,640)	112,308	(7,220,494)
Total accumulated depreciation	(73,867,908)	(5,233,841)	338,744	(78,763,005)
Other capital assets, net	\$ 40,994,344	4,908,291	(209,368)	46,112,003
Capital assets summary:				
Capital assets not being depreciated	\$ 6,707,537	10,394,694	-	17,102,231
Other capital assets	114,862,252	10,142,132	129,376	124,875,008
Total cost of capital assets	121,569,789	20,536,826	129,376	141,977,239
Accumulated depreciation	(73,867,908)	(5,233,841)	(338,744)	(78,763,005)
Capital assets, net	\$ 47,701,881	15,302,985	(209,368)	63,214,234

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expense for the year totaled \$5,233,841.

Discretely Presented Component Unit

	6/30/2008	Additions	Retirements	6/30/2009
Capital assets not being depreciated				
Land	\$ 794,460	-	-	<u>794,460</u>
Other capital assets				
Buildings	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Accumulated depreciation for				
Buildings	<u>(576,985)</u>	<u>(57,699)</u>	-	<u>(634,684)</u>
Other capital assets, net	<u>\$ 1,673,252</u>	<u>(57,699)</u>	-	<u>1,615,553</u>
Capital assets summary:				
Capital assets not being depreciated	\$ 794,460	-	-	794,460
Other capital assets	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Total cost of capital assets	3,044,697	-	-	3,044,697
Accumulated depreciation	<u>(576,985)</u>	<u>(57,699)</u>	-	<u>(634,684)</u>
Capital assets, net	<u>\$ 2,467,712</u>	<u>(57,699)</u>	-	<u>2,410,013</u>

NOTE 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The \$4,982,430 amount consists of \$2,580,355 of accounts payables and \$2,402,075 of accrued payroll tax liabilities.

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 11. LONG-TERM LIABILITIES

Long-term liability activity for the University for the year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Amount Due Within One Year
Bonds payable	\$ 21,550,852	-	(1,810,001)	<u>19,740,851</u>	477,933
Accrued compensated Balances	\$ 1,039,097	1,210,038	(1,039,097)	<u>1,210,038</u>	797,137

Amortization as reflected in the Statement of Revenue Expenses and Changes in Net Assets consists of a charge that was \$109,307, which was the remaining unamortized balance of the 1998 Bond Series paid during the fiscal year.

NOTE 12. BONDS PAYABLE AND NOTE PAYABLE

The bonds are collateralized by substantially all unrestricted revenues, excluding state appropriations. Bonds payable consist of the following:

System Revenue Bonds, Series 2008, issued April 18, 2008, with interest ranging from 3.10% to 4.85% - final maturity 2034.	<u>\$ 19,740,851</u>
Total bonds payable	19,740,851
Amounts due within one year	<u>(477,933)</u>
Long term bonds payable	<u>\$ 19,262,918</u>

NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

NOTE 12. BONDS PAYABLE AND NOTES PAYABLE (CONTINUED)

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 477,933	863,169	1,341,102
2011	492,800	848,339	1,341,139
2012	508,671	832,507	1,341,178
2013	525,512	815,708	1,341,220
2014	543,282	798,043	1,341,325
2015-2019	3,026,881	3,680,220	6,707,101
2020-2024	3,700,119	3,008,662	6,708,781
2025-2029	4,625,352	2,085,745	6,711,097
2030-2034	5,840,301	873,835	6,714,136
Total	\$ 19,740,851	13,806,228	33,547,079

Early Redemption. On June 15, 2008, The University redeemed System Refunding Revenue Bonds series 1998, bonds maturing on June 15, 2011 in the aggregate principal amount of \$965,000 and has redeemed bonds maturing in 2010 in the aggregate amount of \$925,000 on June 30, 2009. The cash flow savings to the University from the early redemptions are \$221,165.

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

Seven year note payable	<u>Amount</u>
July 30, 2013 with 60 monthly payments of \$27,000 and one irregular last payment of \$41,289 at a 7% fixed interest rate. The note is secured with building and land.	\$ 1,156,379
Current portion	<u>(249,937)</u>
Total long-term portion	<u>\$ 906,442</u>

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

<u>Year</u>	<u>Amount</u>
2010	\$ 249,937
2011	268,264
2012	287,847
2013	309,042
2014	41,289
	<u>\$ 1,156,379</u>

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 13. SUBSEQUENT EVENT – BOND APPROVAL

Subsequent to June 30, 2009, the University has requested and received approval for the issuance of System Revenue Bonds – Series 2009 D1 and D2 for up to \$14,000,000 from its Board of Regents, The State of New Mexico Higher Education Department and The State of New Mexico Board of Finance. The University is in the final phase of obtaining the financing, which will be used to construct a new Student Service Center/Student Union.

NOTE 14. DEFERRED REVENUE

As of June 30, 2009, deferred revenue consisted of the following:

Grants and contract	\$ 1,090,195
Stafford loans	209,387
Tuition	848,199
Housing/meal plan	<u>280,724</u>
Total	<u>\$ 2,428,505</u>

NOTE 15. RISK MANAGEMENT

State Risk Management Pool. The University, as a state university defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. Annual premiums are paid to the Office of Risk Management for coverage provided in the following areas:

1. Liabilities
 - Workers Compensation
 - General Liability
 - Law Enforcement
 - Medical Malpractice
 - Auto Liability
 - Civil Rights
 - State Unemployment Insurance

2. Property
 - Fine Arts
 - Blanket Property
 - Boiler & Machinery
 - Auto Physical Damage
 - Crime

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 15. RISK MANAGEMENT (CONTINUED)

Workers' Compensation Insurance. The University is insured for workers' compensation through the State of New Mexico General Services Department-Risk Management Division (RMD). RMD provides workers' compensation for all employees as required by state law. The University remits payments to RMD for this coverage based on premium statements received from RMD. Total expense for the year ended June 30, 2009, was \$235,523 which has been charged to expenditures.

NOTE 16. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

Plan Description. Substantially all of the University's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy. Plan members are required to contribute 7.9% of their gross salary. The University is required to contribute 11.65% of the gross covered salary. Effective July 1, 2009, plan members are required to contribute 9.4% of their gross salary and the University is required to contribute 10.9% of the gross covered salary. The contribution requirements of plan members and the University are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The University's contributions to ERB for the fiscal years ending June 30, 2009, 2008, and 2007, were \$2,528,350, \$2,069,196, and \$1,866,722, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 17. ALTERNATIVE RETIREMENT PLAN

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan. With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 8.65% to the carrier selected by the employee. The employee contributes 7.90% of his/her gross salary to the carrier they select. Contributions by the University totaled \$106,123 to the ERA for the alternative plan and \$305,990 to the various carriers for the year ended June 30, 2009. Employees contributed \$279,459 to the various carriers under the alternative plan during the year ended June 30, 2009.

NOTE 18. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The University contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary.

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 18. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

Employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals. The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature. The University's contributions to the RHCA for the years ended June 30, 2009, 2008 and 2007 were \$306,720, \$285,287, \$268,888, respectively, which is equal the required contributions for each year.

NOTE 19. LEASES

At June 30, 2009, the University had various operating lease arrangements expiring in various years through 2039 summarized as follows:

Operating Leases. Rent expense for operating leases amounted to \$1,148,712 for the year ended June 30, 2009.

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2009:

Year Ending June 30	Operating Leases
2010	\$ 893,286
2011	432,536
2012	376,208
2013	376,208
2014	376,208
2015-2019	1,881,040
2020-2024	1,881,040
2025-2029	1,881,040
2030-2034	1,881,040
2035-2039	1,881,040
	<u>\$ 11,859,646</u>

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 20. COMMITMENTS AND CONTINGENCIES

At June 30, 2009, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined statement of net assets. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	<u>\$ 1,000,483</u>
Plant Funds	<u>\$ 7,066,398</u>

The University is a defendant in legal actions arising from normal business activities. Management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the University's financial position or results of operations.

NOTE 21. RECONCILIATION OF BUDGET BASIS TO GAAP (RESTATED)

	<u>Expenditures</u>
Budget basis expenditures	\$ 89,031,216
Capital expenditures	(20,984,953)
Depreciation	5,233,841
Scholarship allowance	(1,131,097)
Endowment/agency expenditures/other	329,354
Inventory adjustments	246,843
Bond payments	<u>(1,810,001)</u>
Expenses per GAAP	<u>\$ 70,915,203</u>
	 <u>Revenues</u>
Budget basis revenue	\$ 72,166,903
Scholarship allowance	(1,131,097)
Plant CIP	(452,173)
Plant A/R	(1,676,424)
Endowment	(643,868)
Loan	<u>57,012</u>
Revenues per GAAP	<u>\$ 68,320,353</u>

Subsequent to the issuance of the original financial statements, it was determined that this footnote and the revenue, transfers and fund balances reflected in the actual column of the budget comparisons issued as supplementary information on pages 46-48 were materially misstated as more fully described on pages 68-69. Accordingly, this information was restated.

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 22. RESEARCH COMMERCIALIZATION

The University Board of Regents, in its meeting of May 7, 2009, approved and created "Highlands Stable Isotopes Corporation" (Corporation). The Corporation was granted all of the powers available to it pursuant to paragraph 21-28-6 NMSA 1978 of the University – Research Park and Economic Development Act. The new Corporation was filed under the New Mexico Non-profit Corporation Act and is seeking Section 501 (c) (3) of the Internal Revenue Code of 1986 Statutes. The purpose of the Corporation is to conduct research and research commercialization in accordance with the needs of the University.

On May 7, 2009, the Board of Regents entered into a Memorandum of Agreement with the Corporation recognizing that the University has developed and patented Isotopes that may have significant commercial potential. The agreement sets forth processes and structure where the patents can be licensed to other corporation(s) and other operational details.

As of and for the year ended June 30, 2009, there are no balances and no activity in the Corporation.

NOTE 23. NEW MEXICO STATE INVESTMENT RISK – LOCAL GOVERNMENT INVESTMENT POOL

The New Mexico State Treasurer's Office (Treasurer's Office) invested a portion of the Local Government Investment Pool (LGIP) in The Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. The University had balances in the LGIP at September 15, 2008.

On September 16, 2008, The Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen. Since September 2008, The Reserve Primary fund has returned approximately \$0.90 per share to shareholders.

On February 26, 2009, The Reserve Primary Fund announced that it was withholding \$3.5 billion of the Fund's assets for anticipated and pending litigation against it, which amount could increase or decrease as the Fund evaluates information related to such litigation.

As a result, the Treasurer's Office or the University cannot anticipate what the actual loss to the LGIP from The Reserve Primary Fund may be or when that actual loss may be realized. No actual loss has been realized to date.

The total amount remaining of the Reserve Primary Fund position at the Treasurer's Office as of June 30, 2009, is \$39.5 million. The LGIP's remaining position in The Reserve Primary Fund is a non-performing asset. The University had a remaining undistributed balance related to the LGIP investment in the Reserve Primary Fund of \$432,699 at June 30, 2009.

NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

**NOTE 23. NEW MEXICO STATE INVESTMENT RISK – LOCAL GOVERNMENT
INVESTMENT POOL (CONTINUED)**

The New Mexico State Treasurer's Office believes that The Reserve Primary Fund will ultimately end up distributing between 98.38% and 98.77% of the balance that the LGIP had in The Reserve Primary Fund as of September 15, 2008. Of the remaining undistributed balance as of June 30, 2009, the Treasurer's Office expects the LGIP to recover between 83.84% and 87.78%. Uncertainty remains, however, as to the timing of these distributions.

NEW MEXICO HIGHLANDS UNIVERSITY
 COMBINED REVENUES AND EXPENDITURES
 BUDGET COMPARISONS (RESTATED)
 Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 17,524,044	\$ 43,042,181	\$ 43,042,181	-
Unrestricted & Restricted Revenues				
State general fund appropriations	34,234,700	33,231,869	33,241,274	9,405
Federal revenue sources	9,140,102	10,804,934	9,901,079	(903,855)
Tuition and fees	7,457,597	7,532,809	8,698,810	1,166,001
Land and permanent fund	220,447	160,000	267,418	107,418
Private grants/contracts	2,459,715	2,510,214	1,836,188	(674,026)
Sales & service	3,552,864	3,641,020	3,912,785	271,765
Government grants - state	18,640,138	8,394,333	11,357,230	2,962,897
Endowments and private gifts	-	-	-	-
Other	1,979,190	2,366,448	2,952,119	585,671
Total revenues	<u>77,684,753</u>	<u>68,641,627</u>	<u>72,166,903</u>	<u>3,525,276</u>
Total Unrestricted & Restricted Revenues	<u>95,208,797</u>	<u>111,683,808</u>	<u>115,209,084</u>	<u>3,525,276</u>
Unrestricted & Restricted Expenditures				
Instruction and general	36,536,272	34,540,560	34,817,169	276,609
Student social and cultural	723,189	753,919	826,170	72,251
Research	2,442,874	3,668,852	3,130,152	(538,700)
Public service	9,729,178	10,381,640	9,243,931	(1,137,709)
Internal service departments	132,364	366,141	366,122	(19)
Student aid	6,611,990	7,262,306	6,644,370	(617,936)
Auxiliary enterprises	3,308,550	3,662,390	3,461,594	(200,796)
Intercollegiate athletics	2,549,602	2,756,779	2,835,989	79,210
Capital outlay	14,117,156	23,694,952	21,602,428	(2,092,524)
Renewal and replacements	1,536,857	3,455,104	3,207,273	(247,831)
Retirement of indebtedness	1,077,607	2,805,000	2,896,018	91,018
Total Unrestricted & Restricted Expenditures	<u>78,765,639</u>	<u>93,347,643</u>	<u>89,031,216</u>	<u>(4,316,427)</u>
Net Transfers	-	-	-	-
Change in net assets-budgetary basis	<u>(1,080,886)</u>	<u>(24,706,016)</u>	<u>(16,864,313)</u>	<u>7,841,703</u>
Ending Fund Balance	<u>\$ 16,443,158</u>	<u>\$ 18,336,165</u>	<u>\$ 26,177,868</u>	<u>\$ 7,841,703</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS
REVENUES AND EXPENDITURES
BUDGET COMPARISONS (RESTATED)
Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 17,524,044	\$ 43,042,181	\$ 43,042,181	\$ -
Revenues				
Tuition	6,559,965	6,559,965	7,048,828	488,863
Miscellaneous fees	897,632	972,844	1,649,982	677,138
Government appropriations-federal	-	-	-	-
Government appropriations-state	34,234,700	33,231,869	33,241,274	9,405
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	14,550,525	4,500,000	7,632,915	3,132,915
Contracts - local	-	-	-	-
Private grants/contracts	12,500	12,500	9,259	(3,241)
Endowments	-	-	-	-
Land and permanent fund	220,447	160,000	267,418	107,418
Private gifts	-	-	-	-
Sales & service	3,552,864	3,641,020	3,912,785	271,765
Other sources	1,979,190	2,233,500	2,163,463	(70,037)
Total revenues	<u>62,007,823</u>	<u>51,311,698</u>	<u>55,925,925</u>	<u>4,614,227</u>
Total Unrestricted Revenues	<u>79,531,867</u>	<u>94,353,879</u>	<u>98,968,106</u>	<u>4,614,227</u>
Unrestricted Expenditures				
Instruction and general	35,815,830	33,925,489	34,262,395	336,906
Student social and cultural	597,042	690,240	773,899	83,659
Research	892,277	892,276	538,788	(353,488)
Public service	1,938,562	2,607,873	1,979,713	(628,160)
Internal service departments	105,854	343,245	337,876	(5,369)
Student aid	1,202,762	1,273,089	961,017	(312,072)
Auxiliary enterprises	3,276,425	3,620,165	3,428,568	(191,597)
Intercollegiate athletics	2,528,337	2,710,281	2,802,263	91,982
Independent operations	-	-	-	-
Capital outlay	14,117,156	23,694,952	21,602,428	(2,092,524)
Renewal and replacements	1,536,857	3,455,104	3,207,273	(247,831)
Retirement of indebtedness	1,077,607	2,805,000	2,896,018	91,018
Total Unrestricted Expenditures	<u>63,088,709</u>	<u>76,017,714</u>	<u>72,790,238</u>	<u>(3,227,476)</u>
Net Transfers	-	-	-	-
Change in Fund Balance (budgetary basis)	<u>(1,080,886)</u>	<u>(24,706,016)</u>	<u>(16,864,313)</u>	<u>7,841,703</u>
Ending Fund Balance	<u>\$ 16,443,158</u>	<u>\$ 18,336,165</u>	<u>\$ 26,177,868</u>	<u>\$ 7,841,703</u>

NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS (RESTATED)
Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 1,562,574	\$ 2,739,939	\$ 2,739,939	\$ -
Revenues				
Tuition	6,559,965	6,559,965	7,048,827	488,862
Miscellaneous fees	287,519	291,704	392,067	100,363
Government appropriations-federal	-	-	-	-
Government appropriations-state	29,943,700	29,151,979	29,236,134	84,155
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	220,447	160,000	267,418	107,418
Private gifts	-	-	-	-
Sales & service	70,000	95,000	116,930	21,930
Other sources	1,708,190	1,975,000	1,786,490	(188,510)
Total revenues	<u>38,789,821</u>	<u>38,233,648</u>	<u>38,847,866</u>	<u>614,217</u>
Total Unrestricted Revenues	<u>40,352,395</u>	<u>40,973,587</u>	<u>41,587,804</u>	<u>614,217</u>
Expenditures				
Instruction	17,777,188	15,792,460	16,903,982	1,111,522
Academic support	2,899,603	2,982,296	2,859,529	(122,767)
Student services	3,631,166	3,646,507	3,531,688	(114,819)
Institutional support	6,397,240	6,322,593	5,940,375	(382,218)
Oper. & maint. of plant	5,110,633	5,181,633	5,027,490	(154,143)
Total expenditures	<u>35,815,830</u>	<u>33,925,489</u>	<u>34,263,065</u>	<u>337,576</u>
Net Transfers	2,995,646	4,215,936	4,162,629	(1,717,031)
Change in net assets-budgetary basis	<u>(21,655)</u>	<u>92,223</u>	<u>422,172</u>	<u>1,993,672</u>
Ending Fund Balance	<u>\$ 1,540,919</u>	<u>\$ 2,832,162</u>	<u>\$ 3,162,110</u>	<u>\$ 1,993,672</u>

NEW MEXICO HIGHLANDS UNIVERSITY
 RESTRICTED CURRENT FUNDS
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	\$ -	\$ -	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	9,140,102	10,804,934	9,901,079	(903,855)
Government grants - state	4,089,613	3,894,333	3,724,315	(170,018)
Contracts - local	-	-	-	-
Private grants/contracts	2,447,215	2,497,714	1,826,929	(670,785)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	132,948	788,656	655,708
Total revenues	15,676,930	17,329,929	16,240,979	(1,088,950)
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	15,676,930	17,329,929	16,240,979	(1,088,950)
Expenditures				
Instruction and general	720,442	615,071	554,774	(60,297)
Student social and cultural	126,147	63,679	52,271	(11,408)
Research	1,550,597	2,776,576	2,591,364	(185,212)
Public service	7,790,616	7,773,767	7,264,218	(509,549)
Internal service departments	26,510	22,896	28,246	5,350
Student aid	5,409,228	5,989,217	5,683,353	(305,864)
Auxiliary enterprises	32,125	42,225	33,026	(9,199)
Intercollegiate athletics	21,265	46,498	33,726	(12,772)
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Total expenditures	15,676,930	17,329,929	16,240,979	(1,088,950)
Change in net assets-budgetary basis	\$ -	\$ -	\$ -	\$ -

NEW MEXICO HIGHLANDS UNIVERSITY
 RESTRICTED CURRENT FUNDS
 SUMMARY OF INSTRUCTION AND GENERAL
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	\$ -	\$ -	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	406,134	401,138	343,508	(57,630)
Government grants - state	303,405	206,028	205,555	(473)
Contracts - local	-	-	-	-
Private grants/contracts	10,904	7,905	5,711	(2,194)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	720,442	615,071	554,774	(60,297)
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	720,442	615,071	554,774	(60,297)
Expenditures				
Instruction	531,820	388,159	317,568	(70,591)
Academic support	30,529	48,419	51,398	2,979
Student services	121,667	121,123	137,805	16,682
Institutional support	21,788	44,017	34,097	(9,920)
Oper. & maint. of plant	14,638	13,353	13,906	553
Total expenditures	720,442	615,071	554,774	(60,297)
Change in net assets-budgetary basis	\$ -	\$ -	\$ -	\$ -

NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
June 30, 2009

	Pledged Collateral		Bank of	Wells Fargo	Community	State	Total
	Safekeeping Location	Type of Security	Las Vegas, NM	Albuquerque NM	1st Bank Las Vegas, NM	Treasurer Santa Fe, NM	
Funds on deposit							
Demand deposits			\$ 2,196,873	\$ 843,582	\$ 22,985,022	\$ 179,210	\$ 26,204,687
FDIC insurance							
Demand deposits*			(2,196,873)	(250,000)	(250,000)	-	(2,696,873)
Total uninsured public funds			\$ -	\$ 593,582	\$ 22,735,022	\$ 179,210	\$ 23,507,814
50% requirement			\$ -	296,791	11,367,511	N/A	11,664,302
102% requirement			-	-	-	-	-
Total collateral requirements			-	296,791	11,367,511	-	11,664,302
Pledged collateral							
	FHLB - Dallas	Irrevocable Standby	-	-	4,500,000	-	4,500,000
	FHLB - Dallas	Letter of Credit	-	-	8,500,000	-	8,500,000
		Treasury Notes					
	Federal Reserve Bank	CUSIP #31408BVE5	-	3,309,844	-	-	3,309,844
	Federal Reserve Bank	CUSIP #31408HCE3	-	1,292,291	-	-	1,292,291
	Federal Reserve Bank	CUSIP #31412TN74	-	12,296,027	-	-	12,296,027
		Treasury Notes					
	Federal Reserve Bank	CUSIP #3133XAK9	-	-	896,428	-	896,428
	Federal Reserve Bank	CUSIP #31416BLS5	-	-	787,898	-	787,898
	Federal Reserve Bank	CUSIP #3133XLWM1	-	-	9,406,762	-	9,406,762
			-	16,898,162	24,091,088	-	40,989,250
Deficiency / (Excess) of pledged collateral over the required amount			\$ -	\$ (16,601,370)	\$ (12,723,577)	\$ N/A	\$ (29,324,947)
Uninsured and Uncollateralized			\$ -	\$ -	\$ -	\$ -	\$ -
Funds on deposit with no collateral requirements (New Mexico Finance Authority)							
Debt Service Funds			\$ 1,340,652				

*The Transaction Account Guarantee Program provides for a temporary full guarantee by the FDIC for funds held at participating FDIC-insured depository institutions in noninterest-bearing transaction accounts above the existing deposit insurance limit. This coverage became effective on October 14, 2008, and continues through June 30, 2010.

NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
June 30, 2009

<u>Name of Bank</u>	<u>Account Type</u>	<u>Balance Per Bank Statement</u>	<u>Reconciled Balance Per Books</u>
Bank of Las Vegas			
Account payable account	Checking	\$ 843,011	\$ 164,408
Payroll account	Checking	811,096	746,346
University wire-transfer account	Checking	319,232	319,232
Cash receipts account	Checking	148,591	157,967
Cashier's credit card account	Checking	73,966	84,236
Direct lending account	Checking	977	977
Total		<u>2,196,873</u>	<u>1,473,166</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Checking	30,307	30,752
Rio credit card	Checking	35,095	35,589
Savings account	Checking	5,397	5,397
NMHU business	Checking	688,372	688,372
Online payments	Checking	35,247	38,745
NMHU Golf Course	Checking	45,810	46,973
Farmington	Checking	3,354	3,354
Total		<u>843,582</u>	<u>849,182</u>
Community 1st Bank - Las Vegas			
Capital Outlay	MMDA	1,391,923	1,391,923
NMHU Savings	Savings	21,593,099	21,593,099
		<u>22,985,022</u>	<u>22,985,022</u>
Bank of Albuquerque			
NMFA/NMHU	Reserve	1,340,652	1,340,652
State Treasurer's Office			
Local government investments	Pooled	563,422	563,422
Local government investments	Pooled	(384,212)	48,457
		<u>179,210</u>	<u>611,879</u>
Cashier's cash			
		<u>-</u>	<u>15,660</u>
	Total cash and cash equivalents	<u><u>27,545,339</u></u>	<u><u>27,275,562</u></u>
University Investments:			
State investment council	Pooled	1,828,907	1,824,873
State investment council (land grant)	Pooled	2,339,293	2,339,293
	Total investments	<u><u>\$ 4,168,200</u></u>	<u><u>\$ 4,164,166</u></u>

NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
June 30, 2009

Foundation Investments:

<u>Portfolio Description</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>
Cash and Money Market Funds	-	\$ <u>289,168</u>	N/A
Stocks			
Common Stocks	-	<u>1,959,858</u>	N/A
US Government Securities			
US Treasury	1/15/2010	20,348	3.63%
US Treasury	2/28/2011	33,924	4.50%
US Treasury	8/15/2011	16,223	5.00%
US Treasury	11/15/2012	52,518	4.00%
US Treasury	2/15/2016	17,351	4.50%
US Treasury	5/15/2017	<u>72,302</u>	<u>4.50%</u>
Total Government Securities		<u>212,666</u>	<u>4.35%</u>
U.S. Agency			
Federal Natl Mtg Assn	5/15/2010	36,105	4.13%
Federal Home loan	7/15/2012	41,634	5.13%
Federal Home loan	7/15/2013	43,062	4.50%
Federal Natl Mtg Assn	10/15/2014	<u>37,756</u>	<u>4.63%</u>
Total U.S. Agency		<u>158,557</u>	<u>4.59%</u>
International Bonds			
Name			
Schlumberger LTD	6/6/2010	4,436	2.13%
Teva Pharmaceutical	2/1/2024	3,960	0.50%
Teva Pharmaceutical	2/1/2026	<u>4,495</u>	<u>1.75%</u>
Total International Bonds		\$ <u>12,891</u>	<u>1.46%</u>

NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
June 30, 2009

Foundation Investments (Continued):

<u>Portfolio Description</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>
Corporate Bonds			
Citigroup	7/29/2009	\$ 30,017	4.25%
Dupont	10/15/2009	23,426	6.88%
Du Pont	4/30/2010	2,043	4.13%
Target	8/15/2010	15,893	7.50%
Walmart	8/15/2010	20,639	4.75%
International Lease	9/1/2010	22,410	4.88%
Cisco Systems	2/22/2011	31,633	5.25%
Merrill Lunch	7/25/2011	25,441	5.77%
BellSouth Corp	10/15/2011	26,710	6.00%
Household Finance	10/15/2011	25,564	6.38%
Bank of America	9/15/2012	34,615	4.88%
IBM Corp	11/29/2012	26,807	4.75%
General Electric	5/1/2013	25,027	4.80%
Eli Lilly & Co	3/6/2014	41,311	4.20%
Wachovia Corp	8/1/2014	29,357	5.25%
JP Morgan Chase	5/1/2015	19,231	5.25%
Abbott Laboratories	11/30/2017	16,067	5.60%
UPS	1/15/2018	10,650	5.50%
Sysco Corp	2/12/2018	15,554	5.25%
Procter & Gamble Co	2/15/2019	18,255	4.70%
Coca Cola Co	3/15/2019	41,350	4.88%
Computer Associates Intl	12/15/2009	4,085	1.63%
Medtronic Inc	4/15/2011	8,708	1.50%
Nabors Inds Inc CV Global	5/15/2011	5,580	0.94%
Amgen Inc CV	2/1/2013	8,123	0.38%
Symantec Corp Global	6/15/2013	7,960	1.00%
Molson Coors Brewing Co	7/30/2013	7,473	2.50%
EMC Corp	12/1/2013	9,180	1.75%
Archer Daniels	2/15/2014	8,190	0.88%
Allegheny Technologies Inc	6/1/2014	5,500	4.25%
Newmont Mining Corp	7/15/2014	3,251	1.25%
Newmont Mining Corp Notes	7/17/2017	5,231	1.63%
Alza Corp	7/28/2020	2,584	0.00%
Danaher Corp	1/22/2021	9,125	0.00%
Carnival Corp	4/15/2021	4,788	2.00%
Hasbro Inc	12/1/2021	6,056	2.75%
Best Buy S/D Conv	1/15/2022	4,788	2.25%
HCC Insurance Holdings Inc	4/1/2023	4,380	1.30%
Fisher Scientific Intl	3/1/2024	6,081	3.25%
Allergan Inc Global	4/1/2026	6,098	1.50%
Cooper Cameron Intl	6/15/2026	7,954	2.50%
Health Care Reit Inc	7/15/2027	7,470	4.75%
Apogent Technologies Inc	12/15/2033	1,388	0.01%
Blackrock Inc Sr	2/15/2035	8,838	2.63%
Intel Corp	12/15/2035	8,400	2.95%
Bechman Coulter Inc	12/15/2036	8,899	2.50%
Transocean Inc	12/15/2037	8,813	1.50%
Ominicom Group	7/1/2038	3,850	0.00%
Total Corporate Bonds		<u>674,793</u>	<u>3.30%</u>
Total Foundation Investments		\$ <u>3,307,930</u>	

NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF JOINT POWERS AGREEMENTS (JPAs) and MEMORANDUMS OF UNDERSTANDING (MOUs)
 Year Ended June 30, 2009

Type of Agreement	List of all Participants	Responsible operating party	Beginning Date	Ending Date	Total Estimated \$ of project	Portion \$ applicable to NMHU	Amount Contributed (FY09)	Audit Responsibility	Fiscal Agent	Name of Government Agency	Purpose
JPA	NMHU & NM-CYFD	NMHU	7/1/08	6/30/09	1,877,803	1,877,803	1,429,242	NMHU	Jeff Thompson	Children and Youth and Families Department	To increase the number of social worker graduates who are qualified to work for CYFD/PS, Child Welfare Services Program by providing short term and long term training at educational institutions through grants to persons preparing for employment with the state or local agency.
JPA	NMHU & NM Energy, Minerals, and Nat. Res. Dept.	NMHU	9/5/08	6/30/09	70,000	70,000	37,381	NMHU	Carmen Austin	NM Energy, Minerals, and Nat. Res. Dept.	Improving the ecological integrity and long term resiliency of NM's forests and watersheds through implementing the recommendations contained in the Plan.
MOU	NMHU & NM HED	NMHU	1/8/07	6/30/10	40,000	40,000	14,877	NMHU	Brandon Trujillo	NM HED	To train high school students as the next generation of filmmakers who will be pivotal in developing a sustainable film industry in New Mexico.
MOU	NMHU & Department of Cultural Affairs	NMHU	11/30/07	6/30/11	250,000	250,000	107,739	NMHU	Andrea Martinez-Chavez	Department of Cultural Affairs	To provide administrative support and oversight to the joint program, including developing internship opportunities for Media Arts majors in NM's museums and cultural institutions
MOU	NMHU & HED	NMHU	1/1/08	9/30/10	141,000	141,000	33,643	NMHU	Elizabeth Gutierrez	Higher Education Department	Carry mandates of No Child Left Behind Title II Part A Improving Teacher Quality
MOU	NMHU & DFA	NMHU	7/1/08	6/30/09	50,000	50,000	37,603	NMHU	Katherine B. Miller	Department of Finance Authority	To provide funding to the University to purchase a horse trailer and facility management equipment for the Rodeo Program.
MOU	NMHU & DFA	NMHU	7/1/08	6/30/09	30,000	30,000	24,565	NMHU	Katherine B. Miller	Department of Finance Authority	Promoting and attracting competitive rodeo events and increasing the quantity and quality of the state's rodeo facilities
MOU	NMHU & NMDVR	NMHU	3/19/09	6/30/09	17,000	17,000	11,770	NMHU	Andy Winnegar	New Mexico Division Vocational Rehabilitation	To establish a framework for NMDVR and the NMHU Disability Services Office to provide coordination of services to persons with disabilities.
MOU	NMHU & DFA	NMHU	2/21/09	6/30/11	1,000,000	134,000	130,583	NMHU	Katherine B. Miller	Department of Finance Authority	To plan, design, construct an equip local fair and arena facilities, including expenditures related to the rodeo statewide.
MOU	NMHU & TRIBES	NMHU	2/19/09	6/30/12	17,424	17,424	17,424	NMHU	Norman Coeysate	TRIBES	To formalize the relationship between NMHU and TRIBES, with goals to promote higher education opportunities leading to the retention and successful completion of degree programs by TRIBES' students. Scholarships are tuition based on current tuition price for both undergraduates and graduates; a total of 69 scholarship are awarded per academic year (fall and spring only); Spring of 09 awards totaled 13.
MOU	NMHU & SMDC	NMHU	8/31/09	12/31/10	\$55 per GED test taken	\$55 per GED test taken	-	NMHU	Faithrick Sneider	San Miguel Detention Center	To provide GED testing to San Miguel Detention Center inmates.
MOU	NMHU & LCC	NMHU	6/2/09	6/30/10	-	-	-	NMHU	Veronica Sama	Community College	To disclose COMPASS assessment scores with each respective institution.
MOU	NMHU & SFCC	NMHU	8/24/08	ongoing	-	-	-	NMHU	Sheila Ortego	Santa Fe Community College	To articulate twelve hours from the NMHU TESOL License Program into the recently developed SFCC TESOL Endorsement Program
MOU	NMHU & SJC	NMHU	2/7/00	ongoing	-	-	-	NMHU	Carol J. Spencer	San Juan College	To establish a unique educational partnership. It initiates the development of integrated, seamless curricula and a system of student support services. The curricula will link the completion of an associate's degree from San Juan College to the completion of a bachelor's degree from NMHU. Secondly, it will enable the institutions to make more efficient use of their organizational structures in providing course offerings to a greater number of students. Thirdly, this agreement will establish a process by which individual instructional units at San Juan College and NMHU may integrate instructional matrices.

NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

Federal Grantor/Program Title	CFDA#	Sub Award #	Expenditures
National Institute of Health			
Research and Development Cluster			
NIH/RIMI Mod I 10/04-9/05	93.307		\$ 251,620
NIH/RIMI Mod II 10/04-9/05	93.307		45,405
NIH/RIMI Mod III 10/04-9/05	93.307		176,303
NIH/RIMI Mod IV 10/04-9/05	93.307		107,877
NIH/RIMI Mod V 10/04-9/05	93.307		118,826
NIH/RIMI Mod VI 10/04-9/05	93.307		185,539
RIMI-Isotopes	93.307		323,439
NIH/Pharmaceutical Polymorphs	93.855		88,564
Total National Institute of Health			<u>1,297,573</u>
National Science Foundation			
NSF- MRI Acquisition 9/04-8/07	47.049		5,813
International Research & Planning Visit	47.079		330
NSF/Acquisition of Analyser & Sonde	47.049		82,447
NSF/Acquisition of Equipment for Paleomagnetic Lab.	47.050		159,328
Total National Science Foundation			<u>247,918</u>
Passed through New Mexico State University			
INBRE-Cell Biology Fac.	93.389	Q01092	1,233
INBRE/Gifford	93.389	Q01234	113,508
INBRE/Linder	93.389	Q01234	81,758
INBRE/Sammeth	93.389	Q01234	21,874
INBRE/Linder	93.389	Q01092	1,136
INBRE/Sammeth	93.389	Q01348	2,348
INBRE/Linder	93.389	Q01348	13,420
INBRE/Gifford	93.389	Q01348	14,105
Passed through Arizona State University			
WAESO Fall 2007	47.076	KMS0019-7-43/SUB	765
WAESO Fall 2008	47.076	KMS0019-7-43/SUB	1,222
WAESO Spring 2009	47.076	KMS0019-7-43/SUB	1,489
Passed through University of Central Florida			
University of Central Florida/SOAP	47.049		77,241
Passed through University of New Mexico			
NM Epscor RII 4/05-3/06	47.076	3-21301-7850	2,588
EPSCoR/UNM	47.08		140,433
Passed through Arizona State University			
AAMU Research Institute 12/05-7/06	12.431	W911NF-05-1-04565-SUB 1	2,363
Passed through University of Washington			
NSF/UW-Structural Study	47.049	450063	46,659
Total Research and Development Cluster			<u>2,067,633</u>

NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2009

Federal Grantor/Program Title	CFDA#	Sub Award #	Expenditures
US Department of Education			
Student Financial Aid Cluster			
Fed W/S - Instruction	84.033		\$ 76,490
Fed W/S - Academic Support	84.033		30,602
Fed W/S Student Services	84.033		81,341
Fed W/S - Institutional Support	84.033		9,701
Fed W/S - Operation & Maint.	84.033		10,967
Fed W/S - Social & Cultural	84.033		40,797
Fed W/S - Organized Research	84.033		2,739
Fed W/S - Public Service	84.033		28,521
Fed W/S - Internal Service	84.033		13,538
Fed W/S - Auxiliaries	84.033		30,772
Fed W/S - Athletics	84.033		26,794
Fed Off Campus W/S 2001-2002	84.033		2,705
Federal PELL 1999-2000	84.063		3,722,670
Federal SEOG 1999 - 2000	84.007		185,795
ACG	84.375		60,525
SMART	84.376		16,000
Total Student Financial Aid Cluster - US Department of Education			<u>4,339,957</u>
US Department of Education			
TRIO Programs Cluster			
Upward Bound	84.047A		570,452
Support Services 9/05-8/09	84.042A		566,494
Total TRIO Programs Cluster - US Department of Education			<u>1,136,946</u>
US Department of Education			
US Dept Ed/CESDP/Gear up 9/05-8/11	84.334A		443,344
Dept Ed Rehab Counseling 8/04-7/05	84.129B		134,406
NMHU/RNNM Gear Up Program	84.334A		797,826
National Professional Development Program/CESDP	84.195N		317,771
Rehabilitation Counseling	84.129F		74,896
CCRAA-HIS	84.031C		259,164
Passed through Public Education Department			
NMSDE-AP Fee Program	84.330B	07 924 P527 0124	92,500
Passed through Northern New Mexico Community College			
EOS/NNM/Title V 10/06-9/07	84.031S	P031S060059/Sub # 411544201122	201,442
Passed through Southwest Educational Development Laboratory			
CESDP/SEDL/TXCC 12/05 - 06/06	84.283B	S283B050020/Sub # PO NO. 53628	144,525
CESDP/SEDL/SECC 12/05 - 06/06	84.283B	S283B050033/Sub # PO NO. 53630	56,989
Total US Department of Education			<u>2,522,863</u>

NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Year Ended June 30, 2009

Federal Grantor/Program Title	CFDA#	Sub Award #	Expenditures
U.S. Department of Health and Human Services			
DHHS/TCEG/SAMHSA	93.243		\$ 116,740
Passed Through NM Department of Children Youth and Families			
CYFD SW 7/08-6/09	93.658	08-690-5179	1,429,242
Passed through University of New Mexico			
PhD/Bridges Program 01-02	93.96	3R027/5544	28,114
Passed through Value Options New Mexico, Inc			
Value Options/VSL	93.558		<u>11,159</u>
Total US Department of Human Services			<u>1,585,255</u>
U.S. Department of Environmental Protection Agency			
EPA/MBT Solid Waste 10/06-9/08	66.202		<u>162,334</u>
Total US Department of Environmental Protection Agency			
U.S. Department of Agriculture			
Passed through Cooperative State Research, Education and Extension Service			
USDA/SASE 7/06-7/09	10.223	2006-38422-17110	60,928
USDA/SASE Scholarship	10.223	2006-38422-17110	<u>15,056</u>
Total US Department of Agriculture			<u>75,984</u>
Total Federal Awards expended			\$ <u>11,890,972</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1. SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

The federal financial assistance of the University is included in the scope of the Single Audit, which was performed in accordance with the provisions of the Office of Management and Budget's Circular A-133, *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (Compliance Supplement). Compliance testing of all specific requirements was performed, as described in the Compliance Supplement (March 2009).

NOTE 2. FISCAL PERIOD AUDITED

Single Audit testing procedures were performed for program transactions occurring during fiscal year ended June 30, 2009.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards includes all federal assistance to the University that had activity during 2009 or accrued revenue at June 30, 2009. This schedule has been prepared on the accrual basis of accounting. Revenues are recorded for financial reporting purposes when the University has met the qualifications for the respective program.

NOTE 4. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time, although the University expects such amounts, if any, to be immaterial.

NOTE 5. STUDENT FINANCIAL ASSISTANCE

The University administers the Perkins Loan Program. Total outstanding loans under this US Department of Education program at June 30, 2009, were \$1,188,547. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2009, were \$150,161. The Schedule of Expenditures of Federal Awards only includes an amount, which represents administrative costs and additional advances for the year ended June 30, 2009. During the fiscal year ended June 30, 2009, the University processed \$10,404,145 of new loans under the Stafford Loan Program and Parents' Loans for Undergraduate Students.

**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***

To the Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the financial statements of the business-type activities and the discretely presented component unit of New Mexico Highlands University (“University”) as of and for the year ended June 30, 2009. We have also audited the budget comparisons for the year ended June 30, 2009. We have issued our report on the financial statements and budget comparisons described above dated November 9, 2009, except for the budget comparisons and Note 21 to the financial statements for which the date is May 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the University’s internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 09-01 and 09-04 to be significant deficiencies in internal control over financial reporting.

To the Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain matters that are required to be reported under section 12-6-5 NMSA 1978 which are described in the accompanying schedule of findings and questioned costs as item 03-17.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs section of this report. We did not audit the University's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Regents, management, the New Mexico State Auditor, and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico

November 9, 2009, except as it pertains to the budget comparisons and Note 21, for which the date is May 5, 2010

**Report on Compliance With
Requirements Applicable to Each Major Program
And on Internal Control over Compliance in
Accordance with OMB Circular A-133**

To the Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

Compliance

We have audited the compliance of New Mexico Highlands University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, New Mexico Highlands University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 09-02 and 09-03.

To the Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09-02 and 09-03 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses and, accordingly, we express no opinion on it.

To the Board of Regents
New Mexico Highlands University and
Mr. Hector Balderas
New Mexico State Auditor

This report is intended solely for the information and use of the Board of Regents, management, the New Mexico State Auditor and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
November 9, 2009

**NEW MEXICO HIGHLANDS UNIVERSITY
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

Prior Year Finding Description	Status
03-17 – Budget Overspending	Repeated and Revised
06-03 – Inventory	Resolved
07-01 – Student Support Services Disbursement	Resolved
08-01 – Foundation Political Contributions	Resolved
08-02 – Level of Effort	Resolved
08-03 – Payment of Gross Receipts Tax on Tangible Property	Resolved

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weakness(es)? X Yes _____ None Reported

Non-compliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weakness(es) X Yes _____ None reported

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes _____ No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Aid Cluster
84.334A	Gear Up

Dollar threshold used to distinguish between type A and type B programs \$ 356,726

Auditee qualified as low-risk auditee? X Yes _____ No

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009**

B. FINDINGS-FINANCIAL STATEMENT AUDIT

09-01 Lack of Segregation of Duties over Internal Controls – Component Unit

CONDITION

Internal control walkthroughs revealed that the Foundation does not have segregation of duties in the internal controls over cash receipts, cash reconciliation and investments reconciliation processes. We noted that there is not sufficient segregation of duties when receiving mail-in donations. The same person who receives and logs the receipts also prepares and makes the deposit. We also noted that there is no review and sign-off on the monthly cash and investments reconciliations.

CRITERIA

Good accounting practice requires sufficient segregation of duties and controls to ensure proper recording of transactions, review of transactions and adequate safeguarding of assets.

EFFECT

Without proper controls, cash or investment balances could be misstated and assets could be misappropriated.

CAUSE

The Foundation's internal control procedures do not require that the person receiving and logging the donations is different from the person preparing or making the deposit. Additionally, they do not require review and approval of cash and investment reconciliations once they have been prepared.

RECOMMENDATION

We recommend that the Foundation develop procedures to ensure proper segregation of duties within the receipting process and proper review of the cash and investments reconciliations.

MANAGEMENT RESPONSE

In response to finding 09-01 the NMHU Foundation has established the following procedures to assure that there is proper segregation of duties in the office:

- The Administrative Assistant will receive & log all donations that come into the office and make out the bank deposit slip.
- The Executive Director for Advancement will review and initial each bank deposit.
- An office staff member, other than the one who made the deposit, will take the deposit to the bank after it has been reviewed and approved.
- The Executive Director for Advancement will review and initial all monthly bank and investment reconciliations.
- The Executive Director for Advancement will review and initial all journal vouchers before they are entered into the GL.

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009**

B. FINDINGS-FINANCIAL STATEMENT AUDIT (CONTINUED)

09-04 Budget Comparison Misstatements

CONDITION

Subsequent to the issuance of the June 30, 2009 financial statements, the University noted that the revenue, transfers and fund balances reflected in the actual column of the Budget Comparisons issued as Supplementary Information were misstated.

- Total Revenues and ending Fund Balance on the Combined Revenues and Expenditures Budget Comparisons statement (actual column) were overstated by approximately \$10 million.
- Total Revenues and ending Fund Balance on the Unrestricted Current Funds Revenues and Expenditures Budget Comparisons statement were overstated by approximately \$18 million and \$10 million, respectively, and transfers were overstated by approximately \$8 million.
- Fund balance on the Unrestricted Current Funds Summary of Instruction and General Revenues and Expenditures Budget Comparisons statement was understated by approximately \$4 million and transfers were overstated by approximately \$4 million.

Additionally, certain reconciling items in the budget to actual footnote (Note 21) in the financial statements were incorrect as a result of the misstatements noted above and have been subsequently corrected.

CRITERIA

Section 12-6-5 NMSA 1978 (Reports of Audits) states "each report shall set out in detail, in a separate section, any violation of law or good accounting practices found by the audit or examination." An insufficient review of the budget to actual schedules is a violation of good accounting practice.

EFFECT

The overstated revenue and the incorrect transfer amounts caused the fund balances in certain budget to actual schedules to be incorrect. Incorrect budget to actual fund balances could result in the University receiving inaccurate allocations.

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009**

B. FINDINGS-FINANCIAL STATEMENT AUDIT (CONTINUED)

09-04 Budget Comparison Misstatements (Continued)

CAUSE

With the exception of the final review process, controls over revenues and transfers in the budgetary reporting were in place. The final review process (auditor and auditee) did not work effectively at the time the draft financial statements were completed and finalized. As a result, the above mentioned errors which were, predominately transpositions and typographic in nature, were not caught until after the financial statements were issued.

RECOMMENDATION

We recommend that the University enhance its final review process of the budget to actual schedules as presented in the annual financial statements.

MANAGEMENT RESPONSE

We concur with the finding and will ensure appropriate coordination of the review process on future audit engagements.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

09-02 Student Financial Aid – Student Status Changes (Non-Compliance)

Federal program information:

Funding Agency: U.S. Department of Education
Title: Student Financial Aid Cluster
CFDA Number: Various

CONDITION

During our testwork of the Student Financial Aid program, we determined that, of the 25 students tested, 11 spring and 4 fall students' status changes were not reported to the National Student Loan Data System.

CRITERIA

Per 34 CFR 682.610 (FFEL) and 34 CFR 685.309 (direct loans), an institution must send the completed Student Status Confirmation Reports to NSLDS with 30 days of receipt from the Department of Education or a guaranty agency. It is the responsibility of the University to ensure that changes in student status are reported.

QUESTIONED COSTS

None

EFFECT

Failure to report student status changes results in stale dated NSLDS information.

CAUSE

The University was not aware that the specific student status changes had not been reported to NSLDS.

RECOMMENDATION

We recommend the University implement procedures ensuring adequate review of data reported to NSLDS to ensure that student status changes are being recorded in accordance with federal requirements.

MANAGEMENT RESPONSE

The Financial Aid Office has communicated the information regarding the 30 day timeframe required in reporting graduation status to the clearinghouse. The Registrar's Office has now established a calendar to follow in order to meet this 30 day reporting period.

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (CONTINUED)**

09-03 Federal Work Study – Disbursement of Federal Funds

Federal program information:

Funding Agency: U.S. Department of Education
Title: Student Financial Aid Cluster
CFDA Number: Various

CONDITION

During our testwork of the Student Financial Aid program, we noted that the Payroll department pays students from the Federal Work Study funds instead of the Student Aid department. Additionally, the Payroll department does not reconcile the available work study funds for each student before paying them.

CRITERIA

The University awards specific amounts of Federal Work Study to each student to ensure they have sufficient funds and to ensure that the student is not over-awarded.

QUESTIONED COSTS

None

EFFECT

Failure to reconcile available Federal Work Study funds for each student before paying them could result in a shortage of funds or in students being over-awarded Federal aid.

CAUSE

The Student Aid department does not have access to reconcile student accounts before the students are paid with federal funds.

RECOMMENDATION

We recommend that the University implement procedures to ensure that the students' available Federal Work Study funds are reconciled before they are paid using Federal funds.

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (CONTINUED)**

09-03 Federal Work Study – Disbursement of Federal Funds (Continued)

MANAGEMENT RESPONSE

The Financial Aid Office currently reconciles work-study on a monthly basis. Effective immediately, the Human Resources Department will collect timesheets and route to the Student Financial Aid Office where the timesheets will be reviewed to ensure eligibility. Once eligibility is confirmed, the Student Financial Aid Office will return the timesheets to Human Resources for payroll processing. It is recommended that the Student Employment Module be implemented (Financial Aid Module) to allow for automated processing.

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009**

**D. OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE,
SECTION 12-6-5, NMSA 1978**

03-17 Budget Overspending

CONDITION

We noted that the University overspent its approved budget in unrestricted funds in the following categories:

Instruction and General	\$ 366,906
Student Social and Cultural	\$ 83,659
Intercollegiate Athletics	\$ 91,982
Retirement of Indebtedness	\$ 91,018

We also noted that the University overspent its approved budget in restricted funds in the following categories:

Internal Service Department	\$ 5,359
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CRITERIA

Per State Statute 5.3.4.10 NMAC, total expenditures may not exceed amounts shown in the approved budgets. Adequate internal controls to minimize budget overspending should ensure that budgets are not exceeded by any amount. The point in the disbursement cycle in which the transaction should be cancelled if budget is not available is at the beginning with the purchase request.

EFFECT

Overspending of the budget could result in a shortfall of cash funds.

CAUSE

Expenditures were approved for payment when budgeted funds were not available. Budget adjustment requests were completed to cover the increase in expenditures.

RECOMMENDATION

We recommend that University budget controls and processes should be strengthened to ensure that budgeted amounts are never overspent by any amount and budget adjustment requests are completed.

**NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009**

**D. OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE,
SECTION 12-6-5, NMSA 1978 (CONTINUED)**

03-17 Budget Overspending (Continued)

MANAGEMENT RESPONSE

The University acknowledges this finding and has been working diligently in refining its projection methodologies. Moreover, the University has hired a Budget Director to monitor budget projections more closely in an effort to eliminate budget overspending.

NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2009

An exit conference was held on October 6, 2009, with the following in attendance:

NMHU Representatives:

Title:

Lopez, Jesus	Board of Regents Vice-Chairman
Fries, James	President
Taylor, William "Bill"	Vice President for Finance & Administrative Services
Trujillo, Lawrence A	Associate Vice President for Finance & Administration
Baca, Max	IT Services Director
Bentley, Eileen Anne	Budget Director
Castro, Donna	Human Resources Director
Sedillo, Eileen T	Financial Aid Director
Hagood, Nesbitt W	Comptroller
Baquera, Jesus	Assistant Controller
Martinez, Gayle	Restricted Funds Supervisor
Chavez, Dominic A	General Funds Supervisor
Garduno-Crespin, Inca	Accountant – Notary Public
Martinez, Annette L	Accounts Receivable Manager

NMHU Foundation Representatives:

Daves, Doyle	President
Chavez, Darlene	Development Finance Officer

Moss Adams Representatives:

Scott Eliason	Partner
Marlena Parker	Manager

The financial statements were prepared by the University's Accounting Department.

