



**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY**

AUDIT REPORT

JUNE 30, 2011

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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BOARD OF REGENTS AND PRINCIPAL OFFICERS

Board of Regents

<i>Appointed Members:</i>	<i>Title:</i>	<i>Term Expires:</i>
Leveo V. Sanchez	Chairman	December 31, 2012
Jesus L. Lopez	Vice – Chairman	December 31, 2014
Nancy R. Long	Member	December 31, 2013
Frank Marchi	Member	December 31, 2016
Caitlyn Syner	Student Member	December 31, 2012

Principal Administrative Officials

Dr. James Fries	President
Dr. Gilbert Rivera	Vice President for Academic Affairs
Dr. Fidel Trujillo	Dean of Students
Vacant	Vice President for Finance & Administrative Services
Lawrence Trujillo	Associate Vice President for Finance & Administration

Principal Financial Officials

Nesbitt W. Hagood, CPA	Controller
Jesus E. 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 nearly 75% of the enrollment. 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. This includes a 276 bed suite-style LEED Silver certified residence hall that opened for the fall 2009, a new Student Union now under construction 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. The Felix Martínez Building project has been LEED Gold certified. Numerous sustainability projects, including water catchment systems with a total capacity of 305,000 gallons, have been completed. The University is also well along with major updates of its Strategic Plan and approved a new Campus Master Plan two years ago with major components already implemented.

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.

Report of Independent Auditors

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 each discretely presented component unit of the New Mexico Highlands University (University) as of and for the year ended June 30, 2011, 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, 2011, 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, 2011, 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

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 each discretely presented component units of the University at June 30, 2011, and the respective changes in financial position and where applicable cash flows thereof 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, 2011 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, 2011, 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 management's discussion and analysis on pages 6 through 21 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, each 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

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

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.

Mess Adams LLP

Albuquerque, New Mexico
November 9, 2011

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Introduction

The following discussion and analysis provides an overview of the financial position and analysis of New Mexico Highlands University. It is intended to make the University financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the "University's" position and results of operations as of and for the year ended June 30, 2011. 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 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 University has one wholly owned research corporation, **Highlands Stable Isotope Corporation**, a New Mexico University Research Park Act not-for-profit organization. The financial information of this corporation is presented in the financial statements as a "discretely presented component unit".

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, 2011). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University's 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, 2011). Its 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,

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Statement of Revenues, Expenses, and Changes in Net Assets (continued)

income from state government appropriations, although not earned, is 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).

Statement of Cash Flows presents cash receipts and payments of the University during a period of time (year ended June 30, 2011). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations 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)).

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Financial Highlights

During the fiscal year ended June 30, 2011, the University's net assets increased by .005% from \$72.6 million to \$72.7 million and cash and cash equivalents decreased by 37%, from \$30.4 million to \$22.4 million.

CONDENSED STATEMENT OF NET ASSETS

Net Assets as of June 30, 2011 and 2010 (thousands)		
	<u>2011</u>	<u>2010</u>
Assets:		
Current assets	\$30,493	\$41,129
Endowment investments	5,568	4,664
Capital assets, net of accum. depr.	<u>78,682</u>	<u>69,753</u>
Total assets	<u>114,743</u>	<u>115,546</u>
Liabilities:		
Current liabilities	10,405	10,410
Non-current liabilities	<u>31,674</u>	<u>32,515</u>
Total liabilities	<u>42,079</u>	<u>42,925</u>
Net Assets:		
Invested in capital assets, net of debt	46,477	36,705
Restricted for nonexpendable	6,899	5,756
Restricted for expendable	17,169	25,026
Unrestricted	<u>2,119</u>	<u>5,134</u>
Total net assets	<u>\$72,664</u>	<u>\$72,621</u>

Discussion of Statement of Net Assets

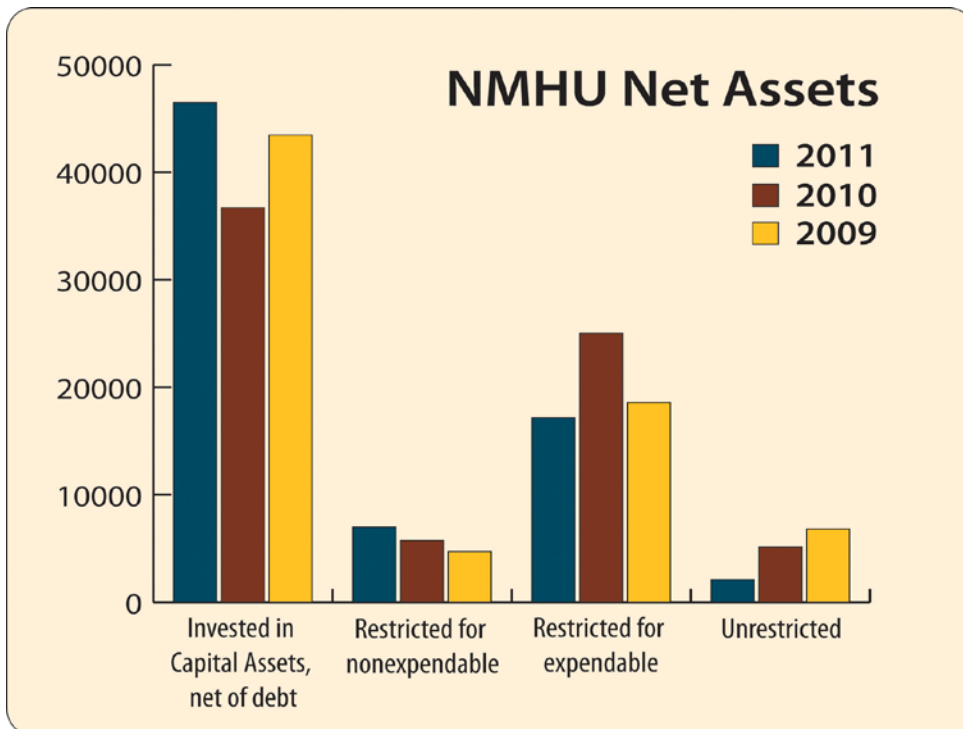
Current assets decreased 35.0% during the year. The ending balance of \$30.4 million consists primarily of cash/cash equivalents (\$22.4 million), assets held by others (1.4 million), receivables (\$5.9 million) and other (\$74 million). All cash and cash equivalents are essential and completely designated for ongoing operations including capital projects. The University attempts to maximize interest earnings by investing funds in the State Investment Council and with the State of New Mexico Local Government Investment Pool. 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.

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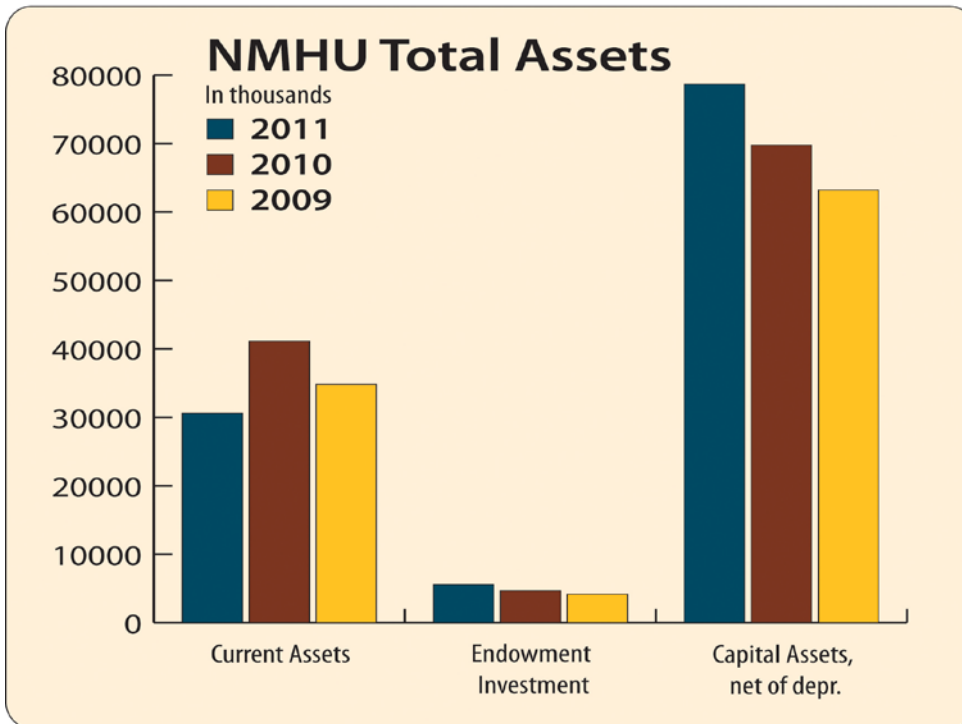
The total cost of **Capital assets** is comprised of land, buildings and improvements, library books, equipment, vehicles, furniture and patents of \$167.0 less accumulated depreciation of \$88.3. All capital assets, except land and construction-in-progress, are being **depreciated**, meaning a percentage of the assets' cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$78.7 million (\$167.0 million cost less \$88.3 million accumulated depreciation).

Total liabilities of \$42.1 million constitute 37 % of total assets and consist primarily of payables/accrued liabilities and accrued compensated absences (\$6.4 million), bonds/notes payable (\$32.2 million), accrued interest payable of \$.2 million and deferred revenue (\$3.3 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 increase by \$0.04 million, or .005 %, during the year. The ending balance of \$72.7 million is derived by deducting total liabilities from total assets and shows the composition of the University's equity. Invested in Capital Assets net of debt are (\$46.6 million). Restricted for nonexpendable (\$6.9 million) represents the University's endowment corpus, whereas restricted for expendable (\$17.1 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$2.1 million) are available to the University for any lawful purpose under the full discretion of management.



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

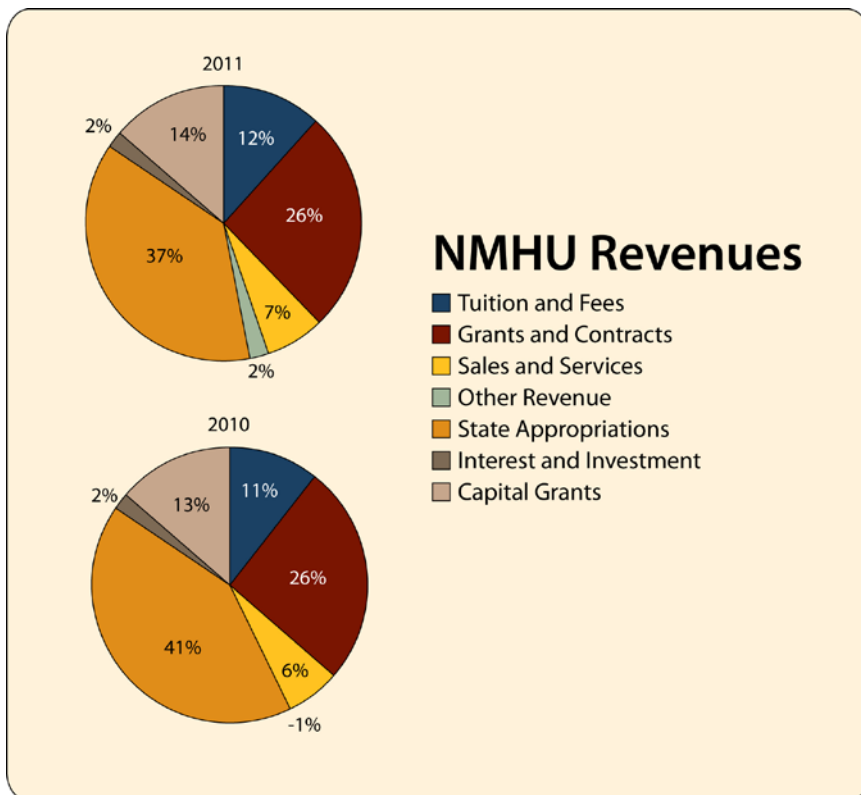
Activities for the years ended June 30, 2011 and 2010 (thousands)		
	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Tuition and fees, net	\$ 8,982	\$ 8,025
Grants & contracts	18,690	19,315
Sales and services / other revenue	<u>7,884</u>	<u>3,866</u>
Total operating revenues	<u>35,556</u>	<u>31,206</u>
Operating expenses:		
Instruction and general	34,521	35,599
Other operating expenses	33,822	32,356
Depreciation	<u>5,838</u>	<u>5,758</u>
Total operating expenses	<u>74,181</u>	<u>73,713</u>
Operating loss	<u>(38,625)</u>	<u>(42,507)</u>
Non-operating revenue:		
State general fund appropriations	28,371	31,268
Interest and investment income/(loss)	<u>1,430</u>	<u>1,418</u>
Total Non-operating revenue:	<u>29,801</u>	<u>32,686</u>
Loss before other revenue, expenses, gains, losses	<u>(8,824)</u>	<u>(9,821)</u>
Interest on indebtedness	(1,426)	(577)
Capital appropriations	10,292	10,141
Other	<u>-</u>	<u>(720)</u>
Increase in net assets	<u>42</u>	<u>(977)</u>
Net assets, beginning	<u>72,621</u>	<u>73,598</u>
Net assets, ending	<u>\$72,663</u>	<u>\$ 2,621</u>

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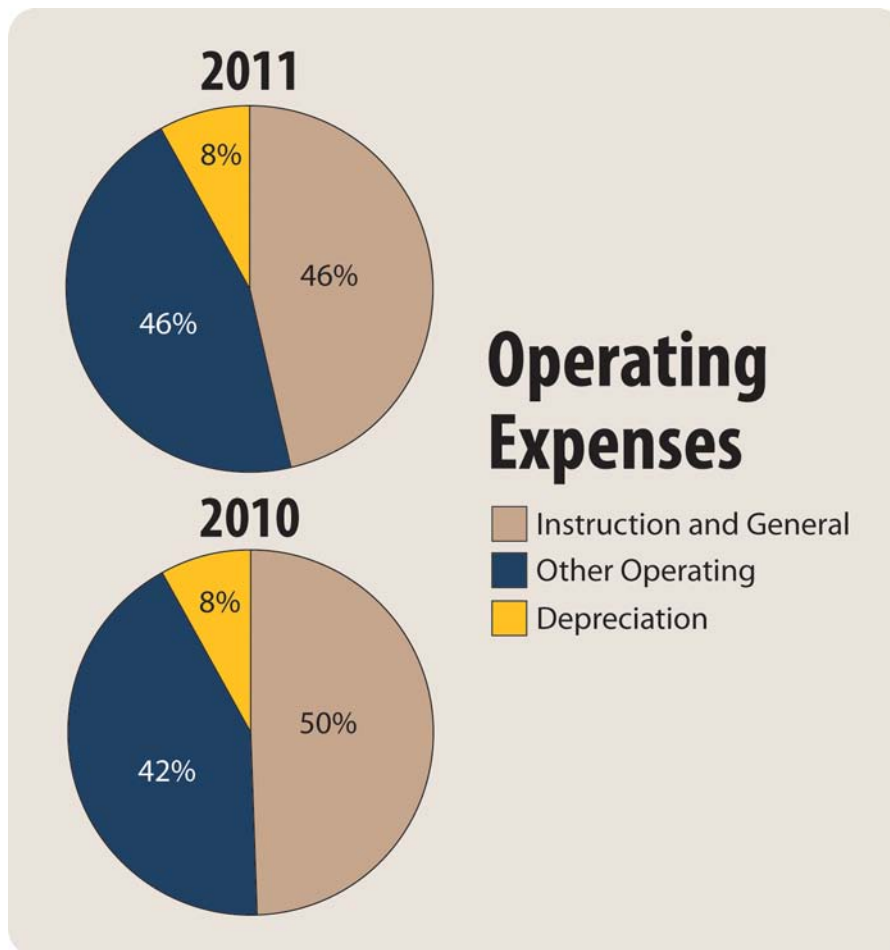
Discussion of Statement of Revenues, Expenses and Changes in Net Assets

This statement shows the components that increased, in the aggregate. The University's net assets increased by \$0.04 million during the year. Operating expenses (\$74.2 million) are subtracted from operating revenues (\$35.5 million), resulting in an "operating loss" (\$38.6 million). State general fund appropriations (\$28.3 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 (\$8.8 million). Added to this loss is 1.4 million of interest of indebtedness offset by \$10.4 million in capital appropriations revenues (federal and state funds designated for construction projects).

State general fund appropriations decreased by \$3.0 million (106%). The state appropriation for general funds for year ended June 30, 2011 was \$28.3 million as compared to state appropriation for year ended June 30, 2010 at \$31.3 million.



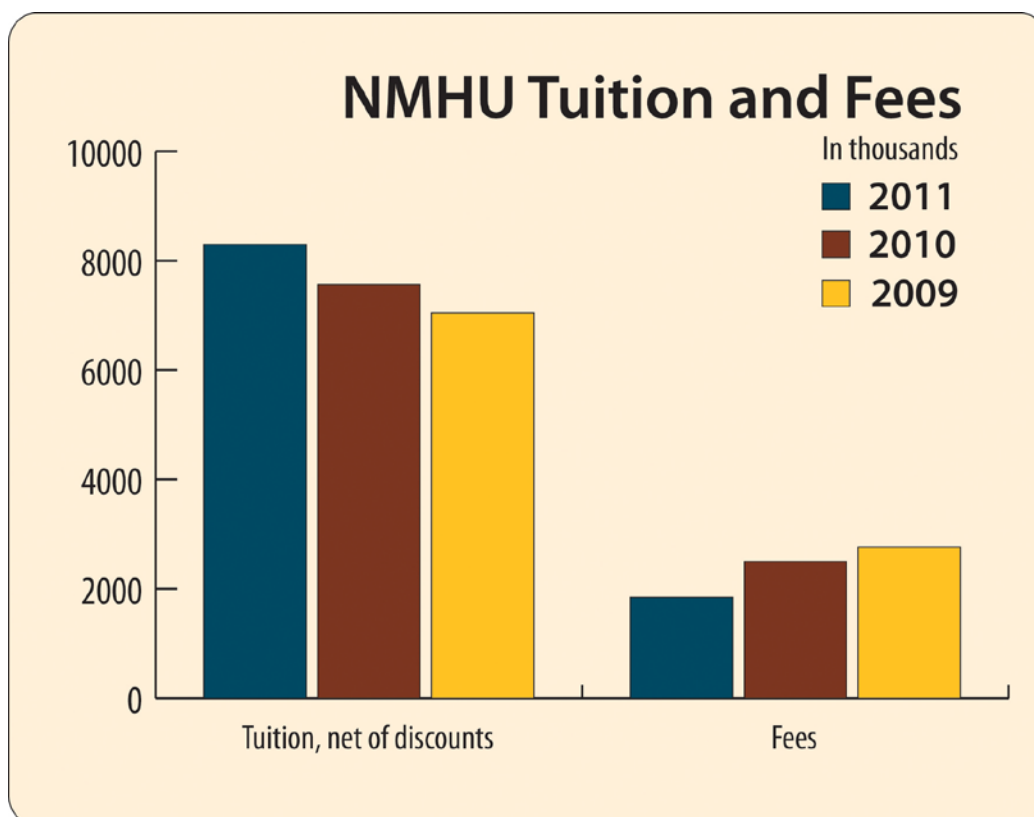
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Analysis of Tuition and Fees Revenue (thousands)				
	<u>2011</u>	<u>2010</u>	<u>Increase</u> <u>(Decrease)</u>	
Tuition	\$8,297	\$7,562	735	8.85%
Fees	<u>2,730</u>	<u>2,501</u>	<u>229</u>	8.36%
Subtotal	11,027	10,063	964	8.73%
Tuition discounts/allowance	<u>(2,045)</u>	<u>(2,038)</u>	<u>7</u>	.30%
Net	<u>\$8,982</u>	<u>\$8,025</u>	<u>957</u>	10.65 %

Tuition and fees, net of discounts and allowances, increased by 10.65%; however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees, the latter increased by \$.96 million, or 8.73%.

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CONDENSED STATEMENT OF CASH FLOWS

Statement of Cash Flows for the years ended June 30, 2011 and 2010 (thousands)		
	2011	2010
Cash flows from operating activities:		
Net cash used by operating activities	\$(30,608)	\$ (39,950)
Net cash provided by noncapital financing activities	28,613	31,525
Net cash flow provided by investment activities	1,430	1,417
Net cash used by capital & related financial activity	<u>(7,767)</u>	<u>10,421</u>
Net decrease in cash and cash equivalents	(8,332)	3,413
Cash and cash equivalents, beginning of year	<u>30,689</u>	<u>27,276</u>
Cash and cash equivalents, end of year	<u>\$ 22,357</u>	<u>\$ 30,689</u>

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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 \$8.3 million net decrease during the year, resulting in an ending cash balance of \$22.3 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. The entire grant budgets are typically included in the final budget column, whereas actual results only reflect part of the grants' budget period.

Discussion of Significant Capital Projects

Highlands University continues to invest heavily in improvements to its campus, including the development of the University Master Plan, and effort that began in 2009. In the summer of 2010 the Master Plan was completed and approved by the NMHU Board of Regents. Capital projects completed and planned range from the construction of large scale buildings, such as our new residence hall and our new student center currently in construction, 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 distributed through the Building Renewal and Replacement (BR&R) formula to all higher education entities.

Highlands University 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

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was requested from the legislature to complete specific infrastructure improvements. The University received an additional \$1.8 million to finish renovation of the Lora Mangum Shields building and \$9.0 million to address infrastructure within the University through General Obligation Bonds.

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 Burris 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 (project completed)
- \$3.5 million for creation of a one-stop shop for student services at the Felix Martinez building (project completed)
- \$20.5 million toward a new student center (in construction)
- \$10.7 million for renovation of the Trolley Building for media arts (in planning stage)
- \$5.3 million in deferred maintenance capital projects (in progress)
- \$9.0 million to address infrastructure within the University (in progress)
- \$4.7 million for renovation of Rodgers Hall (in planning stage)
- \$1.8 million for renovation of the Natatorium (project completed)
- \$2.7 million for boiler renovation (project completed)
- \$2.5 million for housing improvements (project completed)

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

New Student Center

The University began construction of a new student center in July 2010. The building is designed to meet the needs and expectations of current and future students. Together with the previously constructed 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 70,000 square feet and will be located at 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, theatre, ballroom, coffee shop, game room, a copy center, post office, bookstore, and

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dining facilities adequate to serve 400 students (compared to the current capacity of 250 students). As with the previously constructed residence hall, it is designed to meet LEED Silver Certification. Anticipated completion of the new student center is slated for Spring 2012.

Trolley Building Renovation

During the 2010 legislative session, the University's Board of Regents and Administration made the renovation of the "Trolley Building" their top capital priority and Laws 2010 provided \$7,100,000 to be included in the 2010 General Obligation Bonds to be presented in the November 2010 general election for voter approval, which failed. In the summer of 2011, the Board of Regents reaffirmed the Trolley Building as its top priority and directed staff to move forward to secure funding during the 2012 legislative session.

This historic building is envisioned as the new home for the University's successful media arts program. 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.

Media Arts is one of the most successful departments at NMHU, now newly housed in the School of Business, Media & Technology. With over 100 declared majors, and minors in Marketing, Computer Science, and Fine Arts, students come to media arts with a diverse set of interests, ranging from photographic imaging to 3D video production. Student opportunities include our AmeriCorps program in Cultural Technology (with 22 students participating in our first year), an internship program with the NM Department of Cultural Affairs, and the annual Seabury Fellowship program. Last year saw the permanent installation of the student designed exhibit "Emergence" at the NM Museum of Natural History and Science, students working at seventeen cultural institutions around New Mexico, presentations at regional and national conferences, and winning design awards in juried shows.

However, the current facility is in poor condition and has never been optimally functional as academic housing for this program. Classroom and studio space is inadequate and the program is desperately short of office space for new faculty. The current facility does not support the technological character of the program adequately. Additionally, program expansion is impossible due to space constraints. This is consistent with the emphasis on Media Arts and Film initiatives brought forward by the Executive and Legislature. NMHU anticipates significant growth in this area, once the building is renovated to provide studio and classroom space.

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June 30, 2011**

Rodgers Hall Renovation

The Board of Regents included the renovation of Rodgers Hall as the number 2 priority for the 2012 Legislative session. 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 Graduate office, 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.

Infrastructure

Laws 2008 provided \$9 million in General Obligation Bonds to address infrastructure needs within the New Mexico Highlands University campus (Phase 1). Approximately, 83% of the funding from the GOB's has been expended or committed. The University plans to expend the remaining balance by June 30, 2012. The majority of the funding has been utilized to address heating & cooling needs, and roof replacement & repairs within the University.

Below is a list of some of the projects which have been fully or partially funded utilizing the 2008 GOB's (\$9.0 million for infrastructure);

- Natatorium renovation
- Boiler conversions (campus wide)
- Security cameras (campus wide)
- Parking lot improvements (Student Center and Gregg House)
- Student Center HVAC upgrade
- Roofing at Student Center
- HVAC replacement at Victoria De Sanchez education building
- Retaining wall in front of Hewitt Hall
- Lighting (Campus Police and Industrial Arts lots)
- Drainage improvement at Engineering Building
- Sidewalk improvements and traffic improvements
- Douglas Hall Parking lot renovation
- Baseball field improvements
- Science Annex renovation
- Lora Shields renovation
- Fire alarm upgrades

In July of 2011, the Board of Regents approved and submitted a request for an additional \$4 million (priority number 3) to continue to address infrastructure within the University.

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Campus Master Plan

The University has completed a comprehensive, forward-looking campus master plan. The projects described above form the center piece of the NMHU Campus Master plan. During the spring 2009 semester, a series of meetings were held with university stakeholders and the Las Vegas community to discuss the results of the firm's review and several potential plans for campus development.

The Master plan found that Highlands has adequate classroom space for an additional one thousand students. It also reported on the condition of each building and the estimated cost of bringing each building to acceptable building standards.

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 with easy and safe access between heavily used areas. The necessary contrast to a pedestrian space, of course, is that adequate and convenient parking must be a part of the finalized plan. The plan proposes a significant change in traffic flow patterns within the University in which National Avenue would turn into a one-lane artery heading west and University remain one-way heading east. However, in cooperation with City of Las Vegas plans, the direction of flow on each street may be reversed.

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 Department 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.

Since July 2008, the University has experienced a reduction in its state appropriation by approximately 19% or \$6.5 million. The impact of the state funding specific to students has been 15.8% or approximately \$4.7 million. Athletics has been reduced by 21.6% or \$510.2 thousand and Research and Public Service Projects have been reduced by 62.1% or \$1.3 million.

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State Funding Overview: FY09-FY12

	FY09	FY12	Change	% Reduction
I&G	\$ 29,573,300	\$ 24,910,600	(\$4,662,700)	15.8%
Athletics	\$ 2,364,300	\$ 1,854,100	(\$ 510,200)	21.6%
RPSP	\$ 2,080,400	\$ 788,400	(\$1,292,000)	62.1%
Total	\$ 34,018,000	\$27,553,100	(\$6,464,900)	19%

The State Department of Finance and Administration estimates in October 2010 project deficits in FY11 through FY15. Educational institutions must therefore anticipate additional reductions. NMHU has maintained a 5% contingency and is prioritizing other potential reductions should such become necessary.

NMHU has worked closely with students, faculty and the community in providing transparency as it relates to the decrease in state funding.

Organizational changes and consolidation of administrative positions, not filling a number of faculty and staff vacancies, utility savings, reallocation of operating budgets based on actuals, and reduction of contingencies have allowed NMHU to absorb the reductions without a major impact on the core mission, current faculty and staff, and forward momentum.

Advancement

The University will also place a major emphasis on retention and overall enrollment planning during the 2011-12 year. The President is appointing a broad-based committee to evaluate current efforts, results, challenges, and options for more effective policies in terms of encouraging greater student success.

The university is also working more closely with the City of Las Vegas on integration of their respective master plans. The university has been asked to and will be calling and facilitating meetings with educational and community leaders to discuss identification of joint efforts that may be possible to achieve greater efficiencies in the use of tax dollars and to establish a more united effort to address major community issues such as economic development.

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, 2011 and the results of operations, cash flows, and budget variances for the year for New Mexico Highlands University.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF NET ASSETS
Year Ended June 30, 2011**

	Component Units		
	University	Highlands Stable Isotope Corporation	New Mexico Highlands University Foundation, Inc.
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 22,357,702	-	1,080,563
Assets held by others	1,431,233	-	-
Student accounts receivable, net	1,407,589	-	-
Grants receivable, net	2,469,620	-	-
Due from State of New Mexico	215,728	-	-
Other receivables	1,478,874	-	59,432
Inventories	493,089	-	-
Prepaid assets	32,090	-	3,627
Total current assets	29,885,925	-	1,143,622
Noncurrent Assets			
Due from component unit	606,326	-	-
Investments	5,568,483	-	4,963,044
Capital assets, net of accumulated depreciation	78,682,003	-	2,294,618
Total noncurrent assets	84,856,812	-	7,257,662
Total assets	\$ 114,742,737	-	8,401,284
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 5,242,220	-	59,566
Accrued compensated absences	851,929	-	-
Deferred revenue	3,313,653	-	-
Bonds payable-current portion	868,671	-	-
Notes payable-current portion	-	-	293,868
Accrued Interest Payable	128,538	-	1,121
Total current liabilities	10,405,011	-	354,555
Noncurrent Liabilities			
Accrued compensated absences	337,774	-	-
Bonds payable long-term portion	31,336,448	-	-
Assets held for others	-	-	1,431,284
Due to University	-	606,326	-
Notes payable-long term portion	-	-	333,240
Total noncurrent liabilities	31,674,222	606,326	1,764,524
Total liabilities	\$ 42,079,233	606,326	2,119,079
NET ASSETS			
Invested in capital assets, net of debt	\$ 46,476,884	-	1,667,510
Restricted for			
Nonexpendable			
Restricted for scholarships and grants	6,897,826	-	3,715,001
Expendable			
Restricted for scholarships and grants	-	-	728,172
Loans	1,121,464	-	-
Capital projects	12,878,696	-	-
Debt service	3,169,313	-	-
Unrestricted (deficit)	2,119,321	(606,326)	171,522
Total net assets	72,663,504	(606,326)	6,282,205
Total net assets and liabilities	\$ 114,742,737	-	8,401,284

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2011**

	Component Units		
	University	Highlands Stable Isotope Corporation	New Mexico Highlands University Foundation, Inc.
Operating revenues			
Tuition and fees	\$ 11,026,713	-	-
Tuition discounts and allowances	(2,044,565)	-	-
	8,982,148	-	-
Federal grants and contracts	15,319,117	-	-
State and local grants and contracts	1,714,408	-	-
Private grants and contracts	1,656,368	-	-
State land, permanent fund and investment income	241,867	-	145
Sales and services of auxiliary enterprises	5,287,592	-	-
Contributions	-	-	1,132,513
Other	2,354,423	-	988,329
Total operating revenues	35,555,923	-	2,120,987
Expenses			
Instruction and general			
Instruction	17,818,568	-	-
Academic support	2,628,088	-	-
Student services	3,362,740	-	-
Institutional support	5,456,874	-	-
Operations and maintenance support	5,254,354	-	-
Total instruction and general	34,520,624	-	-
Student social and cultural development	825,658	-	-
Research	1,729,962	-	-
Public service	9,507,823	-	-
Student aid grants and stipends	8,915,855	-	153,645
Tuition discounts and allowances	(2,044,565)	-	-
Auxiliary enterprises	5,366,016	-	-
Athletics	2,211,453	-	-
Other expenditures	7,310,107	326,940	1,291,431
Depreciation	5,837,878	-	57,698
Total operating expenses	74,180,811	326,940	1,502,774
Operating (loss) income	(38,624,888)	(326,940)	618,213
Non operating revenues (expenses)			
State appropriations	28,371,165	-	-
Interest and investment revenue	1,430,219	-	-
Net non-operating revenues	29,801,384	-	-
Income (loss) before other revenues, expenses, gains and losses	(8,823,504)	(326,940)	618,213
Other revenues (expenses)			
Capital appropriations	10,292,261	-	-
Interest on indebtedness	(1,427,111)	-	-
	8,865,150	-	-
Increase (Decrease) in net assets	41,646	(326,940)	618,213
Net assets - beginning of year	72,621,858	(279,386)	5,663,992
Net assets, end of year	\$ 72,663,504	(606,326)	\$ 6,282,205

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011**

	Primary Institution
Cash Flows From Operating Activities	
Tuition and fees	\$ 7,989,078
Grants and contracts	19,528,652
Sales and services of educational activities	5,287,592
Other operating receipts	3,472,498
Payments to employees for salaries and benefits	(36,621,979)
Payments to suppliers	(30,263,805)
Net cash used by operating activities	<u>(30,607,964)</u>
Cash Flows From Noncapital Financing Activities	
State appropriations	28,371,165
Land and permanent fund	241,867
Net cash provided by noncapital financing activities	<u>28,613,032</u>
Cash Flows From Investment Activities	
Investment Income	1,430,222
Net cash provided by investment activities	<u>1,430,222</u>
Cash Flows From Capital and Related Financing Activities	
State Appropriations for Capital	10,292,261
Cash paid for capital assets	(15,812,814)
Repayments of bonds payable	(819,393)
Interest payment on bonds	(1,427,111)
Net cash used by capital and related financing activities	<u>(7,767,057)</u>
Net decrease in cash and cash equivalents	(8,331,767)
Cash and cash equivalents, beginning of year	<u>30,689,469</u>
Cash and cash equivalents, end of year	<u><u>\$ 22,357,702</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (38,624,888)
Adjustments to reconcile operating (loss) income to net cash used by operating activities	
Depreciation expense	5,837,878
Changes in assets and liabilities	
Receivables	382,074
Inventories	634,875
Other assets	905,017
Accounts payable and accrued expenses	(559,832)
Deferred revenue	845,968
Compensated absences	(29,056)
Net cash used by operating activities	<u><u>\$ (30,607,964)</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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 and 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, 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 units 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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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 units for which the University is considered to be financially accountable. These were 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 units are 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.
- **Highlands Stable Isotope (HSI)**
Highlands Stable Isotope 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. HSI issues separate financial statements. The separate financial statements can be requested through Office of University Relations, P. O. Box 9000, Las Vegas, NM 87701.

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.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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.

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 unrestricted instruction and general; (3) total expenditures in restricted instruction and general. 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 HED 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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

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. 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 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 2011 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2011. 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 not capitalize historical treasures or works of art.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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.

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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

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.

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, (2) most Federal, state and local grants and contracts and Federal appropriations, and (3) 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.

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	\$ 15,715	\$ -
Bank Deposits	19,595,835	1,080,053
New Mexico Finance Authority - Bank of New York Mellon	2,400,239	-
State Treasurer Local Government Investment Pool	345,913	-
	<u>\$ 22,357,702</u>	<u>\$ 1,080,053</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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, 2011, none of the University's bank balance of \$23,406,536 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, 2011, 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, 2011, the State Treasurer Investment Pool was paying the University .2375 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 36 days and the rating is AAAM by Standard & Poor's.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. ACCOUNTS RECEIVABLE

At June 30, 2011, accounts receivable of the University consisted of the following:

Student accounts receivable	\$ 4,523,734
Perkins loan receivable	927,282
Due from City of Las Vegas	482,616
Bookstore receivable	395,562
Rio Rancho bookstore receivable	23,058
Other	<u>68,974</u>
Total accounts receivable	6,421,226
Allowance for uncollectible accounts	<u>(3,534,765)</u>
Allowance receivables, net	<u>\$ 2,886,461</u>

NOTE 4. INVENTORIES

At June 30, 2011, inventories of the University are consisted of the following:

Facilities services	\$ 308,687
Athletics	161,667
Golf course	<u>22,735</u>
Total inventory	<u>\$ 493,089</u>

NOTE 5. INVESTMENTS

At June 30, 2011, investments of the University and its components units are consisted of the following:

	New Mexico Highlands University	Component Unit NMHU Foundation
State Investment Council	\$ 2,556,775	\$ -
State Investment Council (land grant)	3,011,708	-
Mutual funds	-	825,132
Common stocks	-	3,035,868
U.S. obligations	-	423,870
U.S. agency obligations	-	122,122
International bonds	-	5,098
U.S. corporate bonds	<u>-</u>	<u>550,954</u>
Total investments	<u>\$ 5,568,483</u>	<u>\$ 4,963,044</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 5. INVESTMENTS (CONTINUED)

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

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

Foundation Investment Risk. As of June 30, 2011, the Foundation had the following investments subject to investment rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
Mutual Funds	\$ 825,132	N/A
Common Stocks	3,035,868	N/A
U.S. obligation	423,870	3.98
U.S. agency obligations	122,122	3.56
International bonds	5,098	4.50
U.S. corporate bonds	<u>550,954</u>	<u>3.36</u>
	<u>\$ 4,963,044</u>	
Portfolio weighted average maturity		<u>3.85</u>

The Foundation is not required to follow State Statutes and therefore no collateralization is required. As of June 30, 2011, none of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

Foundation Credit Risk. As of June 30, 2011, the Foundation had the following investments subject to investment rate risk:

U.S. Corporate Bonds:

<u>Rating</u>	<u>Fair Value</u>
A	\$ 457,510
B	<u>93,444</u>
	<u>\$ 550,954</u>

International Bonds:

<u>Rating</u>	<u>Fair Value</u>
BAA	<u>\$ 5,098</u>

U.S. Agency Obligations:

<u>Rating</u>	<u>Fair Value</u>
BAA1/BBB	<u>\$ 122,122</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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 appreciation of \$483,457 and investment income of \$127,819.

NOTE 6. GRANTS RECEIVABLE, NET

As of June 30, 2011, grants receivables consisted of the following:

Federal grants	\$ 1,274,352
State grants	864,657
Private grants	328,414
Other grants	<u>413,827</u>
Total grants receivables	2,881,250
Allowance for uncollectible grant receivable	<u>(411,630)</u>
Grants receivable, net	<u><u>\$ 2,469,620</u></u>

NOTE 7. DUE FROM STATE OF NEW MEXICO

The amount of \$215,728 on the Statement of Net Assets consists of amounts due for capital projects as of June 30, 2011.

NOTE 8. ASSETS HELD BY OTHERS

As of June 30, 2011, assets held by others consisted of the following:

Foundation Endowment	\$1,431,284
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**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 9. CAPITAL ASSETS, NET

The following schedule presents the changes in capital assets and accumulated depreciation by major asset category for the year ended June 30, 2011:

University

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 2,041,632	\$ 752,323	\$ -	\$ 2,793,955
Artwork	71,650	-	-	71,650
Construction-in-progress	-	9,916,761	-	9,916,761
Total capital assets not being depreciated	\$ 2,113,282	\$ 10,669,084	\$ -	\$ 12,782,366
Other capital assets				
Land improvements	\$ 23,487,286	\$ 3,239,878	\$ -	\$ 26,727,164
Buildings	101,855,634	1,805,124	996,695	102,664,063
Furniture, fixtures, and equipment	16,915,491	179,144	602,645	16,491,990
Library materials	8,482,751	385,104	575,875	8,291,980
Patents	73,686	-	-	73,686
Total other capital assets	\$ 150,814,848	\$ 5,609,250	\$ 2,175,215	\$ 154,248,883
Less accumulated depreciation for				
Land improvements	\$ 5,741,310	\$ 1,692,192	\$ 17,163	\$ 7,416,337
Buildings	55,952,449	3,084,292	276,143	58,760,598
Furniture, fixtures and equipment	13,989,212	879,013	319,748	14,548,477
Library materials	7,492,131	182,381	50,678	7,623,834
Total accumulated depreciation	83,175,102	5,837,878	663,733	88,349,246
Other capital assets, net	\$ 67,639,746	\$ (228,628)	\$ 1,511,481	\$ 65,899,637
Capital assets summary:				
Capital assets not being depreciated	\$ 2,113,282	\$ 10,669,084	\$ -	\$ 12,782,366
Other capital assets	150,814,848	5,609,250	2,175,215	154,248,883
Total cost of capital assets	152,928,130	16,278,334	2,175,215	167,031,249
Less accumulated depreciation	83,175,102	5,837,878	663,733	88,349,246
Capital assets, net	\$ 69,753,028	\$ 10,440,456	\$ 1,511,482	\$ 78,682,003

Depreciation expense for the year totaled \$5,837,878.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 9. CAPITAL ASSETS, NET (CONTINUED)

New Mexico Highlands University Foundation, Inc.

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 794,460	\$ -	\$ -	\$ 794,460
Other capital assets				
Buildings	2,250,237	-	-	2,250,237
Less accumulated depreciation for				
Buildings	692,382	57,699	-	750,081
Other capital assets, net	<u>\$ 2,352,315</u>	<u>\$ (57,699)</u>	<u>\$ -</u>	<u>\$ 2,294,618</u>
Capital asset summary				
Capital assets not being depreciated	\$ 794,460	\$ -	\$ -	\$ 794,460
Other capital assets, at cost	<u>2,250,237</u>	<u>-</u>	<u>-</u>	<u>2,250,237</u>
Total cost of capital assets	3,044,697	-	-	3,044,697
Accumulated depreciation	<u>(692,382)</u>	<u>(57,699)</u>	<u>-</u>	<u>(750,081)</u>
Capital assets, net	<u>\$ 2,352,315</u>	<u>\$ (57,699)</u>	<u>\$ -</u>	<u>\$ 2,294,618</u>

NOTE 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The University's accounts payable and accrued liabilities of \$5,242,220 consisted of \$2,688,962 of accounts payables and other liabilities, and \$2,553,258 of accrued payroll tax liabilities.

Discretely Presented Component Unit - Foundation

The Foundation's accounts payable and accrued liabilities of \$59,566 consisted of accounts payables, and \$1,121 of accrued interest.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 11. LONG-TERM LIABILITIES

Long-term liability activity for the Year ended June 30, 2011, is as follows:

University

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Amount Due Within One Year
Bonds payable	\$ 33,047,918	\$ -	\$ (842,799)	\$ 32,205,119	\$ 868,671
Accrued compensated balances	\$ 1,218,759	\$ 1,189,703	\$ (1,218,759)	\$ 1,189,703	\$ 851,929

New Mexico Highlands University Foundation, Inc.

Long-term liability activity for the year ended June 30, 2011, is as follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Amount Due Within One Year
Note payable	\$ 906,440	\$ -	\$ (279,332)	\$ 627,108	\$ 293,868

NOTE 12. BONDS PAYABLE AND NOTE PAYABLE

University

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

Systems refunding revenue bonds series, 2008, issued April 18, 2008, with interest ranging from 3.10% to 4.85% - final maturity 2034.	\$ 18,770,119
Systems refunding revenue bonds series, 2009A issued October 15, 2009, with interest ranging from 3.00% to 4.50% - final maturity 2021.	4,205,000
Systems refunding revenue bonds series, 2009B, issued October 15, 2009, with interest ranging from 5.32% to 6.07% - final maturity 2034.	9,230,000
Total bonds payable	32,205,119
Amounts due within one year	<u>(868,671)</u>
Long term bonds payable	<u>\$ 31,336,448</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 12. BONDS PAYABLE AND NOTE PAYABLE (CONTINUED)

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	868,671	1,531,956	2,400,627
2013	895,513	1,504,356	2,399,869
2014	928,282	1,471,831	2,400,113
2015	962,144	1,437,617	2,399,761
2016	992,279	1,405,532	2,397,811
2017-2021	5,548,448	6,447,149	11,995,597
2022-2026	6,793,187	5,103,427	11,896,614
2027-2031	8,393,590	3,210,104	11,603,694
2032-2035	6,823,005	848,915	7,671,920
Total	\$ 32,205,119	\$ 22,960,887	\$ 55,166,006

Foundation

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 \$20,916 at a 6% fixed interest rate. The note is secured with building and land.	\$ 627,108
Current portion	<u>(293,868)</u>
Total long-term portion	<u>\$ 333,240</u>

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

<u>Year</u>	<u>Amount</u>
2011	\$ 293,868
2012	312,325
2013	<u>20,916</u>
	<u>\$ 627,108</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 13. DEFERRED REVENUE

At June 30, 2011, deferred revenue consisted of the following:

Grants and Contract	\$	1,131,262
Stafford Loans		266,823
Tuition		1,613,985
Housing/meal Plan		44,200
Bond Premium		<u>257,383</u>
Total	\$	<u>3,313,653</u>

NOTE 14. 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
 - Mexican Auto

NOTE 15. EMPLOYEE BENEFITS

The University offers two retirement plans. All eligible employees, working more than 25% full-time equivalent, are required to participate in one of the first two plan described below. Student employees do not participate in these plans.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 15. EMPLOYEE BENEFITS (CONTINUED)

A. Education Retirement Act

Plan Description. Substantially all of the University's eligible employees, except those who participate in the Alternative Retirement Plan (ARP) described below, participate in the a public employee retirement system authorized under the Educational Retirement Act (ERA of the State of New Mexico (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Boards (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 schools 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, New Mexico 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy. As of July 1, 2009, House Bill 854 increased plan members' contributions to 9.4%. The University is required to contribute 10.9% of the gross covered salary. Employees earning \$20,000 or less (on a full-time annualized basis) contribute 7.9% of gross salary and the University contributes 12.4%. As of July 1, 2011 the contribution required by employees earning more than \$20,000 will increase to 11.15% and the University contributions will decrease to 9.15%. The contribution rates remain unchanged for employees earning \$20,000 or less. 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 legislature. The University's contributions to the ERB for the years ended June 30, 2011, 2010 and 2009 were \$2,484,675, \$2,594,011 and \$2,528,350, respectively, which equal the amount of the required contributions for each fiscal year.

B. Alternative Retirement Program

Plan Description. The New Mexico Alternative Retirement Plan (ARP) was established by amendment to Chapter 22, Article 11, Section 47-52. Certain faculty and professional staff hired on or after July 1, 1991, may elect to participate in an alternative defined contribution retirement plan in lieu of participation in the ERA in accordance with policies stipulated by the board of Regents. The two carriers approved the ERB are the Teachers Insurance and Annuity Association/College Retirement Equities Fund and the Variable Annuity Life Insurance Company. Employees are allowed to transfer between carriers once each year.

Effective July 1, 2009, employees, after 7 years of contribution to the ARP, have a one-time opportunity to move the ERB's defined benefit plan. Senate Bill 572 allows members of the ARP the option to cash out or rollover the ARP account once they have left employment.

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan (ARP). With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 7.90% to the

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 15. EMPLOYEE BENEFITS (CONTINUED)

carrier selected by the employee. The employee contributes 9.40% of his/her gross salary to the carrier they select. Contributions by the University totaled \$90,763 to the ERA for the alternative retirement plan and \$237,154 to the various carriers for the year ended June 30, 2011. Employees contributed \$283,369 to the various carriers under the alternative plan during the year ended June 30, 2011.

Health Insurance.

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 Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which 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 legislatures who served at least two years; and 4) former governing authority members who served at least four years.

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

Funding Policy. The Retiree Health Care Act (Section 10-7C13 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 basis 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 www.nmrhca.state.nm.us.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

NOTE 15. EMPLOYEE BENEFITS (CONTINUED)

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 1.666% of each participating employee's annual salary; each participating employee is required to contribute .833% of their salary.

In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	2.292%	1.146%
FY13	2.500%	1.250%

Also, employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the NMRHCA base on one of two formulas at agreed - upon intervals.

The NMRHCA plan is finance on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the NMRHCA 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 NMRHCA for years ended June 30, 2011, June 30, 2010, and June 30, 2009 were \$411,226, \$322,471, \$306,720, respectively, which equals the required contributions for each year.

NOTE 16. 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, 2011, was \$196,976 which has been charged to expenditures.

NOTE 17. LEASES

At June 30, 2011, the University had various operating lease arrangements summarized as follows:

Operating Leases. Rent expense for operating leases amounted to \$999,291 for the year ended June 30, 2011.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 17. LEASES (CONTINUED)

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2011:

Year Ending <u>June 30</u>	Operating <u>Leases</u>
2012	\$ 608,363
2013	376,208
2014	376,208
2015	376,208
2016	376,208
2017-2021	1,881,040
2022-2026	1,881,040
2027-2031	1,881,040
2032-2032	1,881,040
2033-2041	<u>1,881,040</u>
	<u>\$ 11,859,646</u>

NOTE 18. COMMITMENTS AND CONTINGENCIES

At June 30, 2011, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	<u>\$ 985,013</u>
Plant Funds	<u>\$ 8,939,293</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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 19. RECONCILIATION OF BUDGET BASIS TO GAAP

	<u>Revenues</u>
Budget Basis Revenue	\$ 76,702,128
Scholarship Allowance	(2,044,565)
Loan	93,020
Endowment	721,062
Agency	<u>177,923</u>
Revenues per GAAP	<u>\$ 75,649,568</u>
	 <u>Expenditures</u>
Budget Basis Expenditures	\$ 84,935,498
Capital Expenditures	(16,278,334)
Depreciation	5,837,878
Scholarship Allowance	(2,044,565)
Endowment/agency Expenditures	222,943
Other	3,753,895
Bond Payments	<u>(819,393)</u>
Expenses per GAAP	<u>\$ 75,607,922</u>

NOTE 20. RESEARCH COMMERCIALIZATION

The University Board of Regents, in its meeting of May 7, 2009, approved and created "Highlands Stable Isotope 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 status. 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 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.

NOTE 21. CITY OF LAS VEGAS RECEIVABLE

At June 30, 2011, the University recorded an accounts receivable in the amount of \$482,616. The City of Las Vegas, New Mexico, recognized that it had over-charged the University for Gas Usage in fiscal year 2010. The amount will be recovered by a credit to the University's monthly billing until the entire amount has been absorbed.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
COMBINED REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2011**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 28,968,414	30,550,151	30,544,859	(5,292)
Unrestricted & Restricted Revenues				
State general fund appropriations	29,108,100	28,383,436	28,371,165	(12,271)
Federal revenue sources	12,455,927	12,344,357	11,798,190	(546,167)
Tuition and fees	8,918,289	9,210,817	10,918,902	1,708,085
Land and permanent fund	283,873	283,873	241,867	(42,006)
Private grants/contracts	3,105,411	2,333,253	1,481,558	(851,695)
Sales & service	5,743,965	5,747,411	5,468,398	(279,013)
Government grants - state	12,768,498	18,919,912	15,557,783	(3,362,129)
Endowments and private gifts	-	-	-	-
Other	2,023,250	2,038,388	2,864,265	825,877
Total revenues	74,407,313	79,261,447	76,702,128	(2,559,319)
Total Unrestricted & Restricted Revenues	103,375,727	109,811,598	107,246,987	(2,564,611)
Unrestricted & Restricted Expenditures				
Instruction and general	35,153,190	33,962,311	34,518,890	556,579
Student social and cultural	902,720	943,570	825,658	(117,912)
Research	2,980,435	2,009,178	1,729,962	(279,216)
Public service	10,486,646	9,694,107	9,507,822	(186,285)
Internal service departments	87,699	73,218	60,021	(13,197)
Student aid	8,267,224	9,156,098	8,798,148	(357,950)
Auxiliary enterprises	4,724,989	4,611,741	5,188,092	576,351
Intercollegiate athletics	2,204,141	2,232,511	2,211,453	(21,058)
Capital outlay	25,000,000	16,500,000	18,275,306	1,775,306
Renewal and replacements	1,271,022	1,271,022	1,546,085	275,063
Retirement of indebtedness	2,210,797	2,401,086	2,274,061	(127,025)
Total Unrestricted & Restricted Expenditures	93,288,863	82,854,842	84,935,498	2,080,656
Net Transfers	-	-	4,374,433	4,374,433
Change in net assets-budgetary basis	(18,881,550)	(3,593,395)	(12,607,803)	(9,014,408)
Ending Fund Balance	\$ 10,086,864	26,956,756	17,937,056	(9,019,700)

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 570,769	1,042,332	81	(1,042,251)
Revenues				
Tuition	7,879,539	8,164,539	8,296,753	132,214
Miscellaneous fees	296,770	303,768	439,621	135,853
Government appropriations-federal	-	-	-	-
Government appropriations-state	26,302,100	25,448,800	25,448,840	40
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	283,873	283,873	241,867	(42,006)
Private gifts	-	-	-	-
Sales & service	10,000	10,000	14,549	4,549
Other sources	1,630,000	1,640,917	1,536,590	(104,327)
Total revenues	<u>36,402,282</u>	<u>35,851,897</u>	<u>35,978,220</u>	<u>126,323</u>
Total Unrestricted Revenues	<u>36,973,051</u>	<u>36,894,229</u>	<u>35,978,301</u>	<u>(915,928)</u>
Expenditures				
Instruction	17,479,973	17,238,513	17,511,083	272,570
Academic support	2,584,475	2,589,317	2,583,314	(6,003)
Student services	3,080,401	2,960,536	3,257,662	297,126
Institutional support	5,742,506	5,626,132	5,423,323	(202,809)
Oper. & maint. of plant	4,964,264	4,096,094	4,083,559	(12,535)
Total expenditures	<u>33,851,619</u>	<u>32,510,592</u>	<u>32,858,941</u>	<u>348,349</u>
Net Transfers	2,550,660	3,250,660	3,172,964	(77,696)
Change in net assets-budgetary basis	<u>3</u>	<u>90,645</u>	<u>(53,685)</u>	<u>(144,330)</u>
Ending Fund Balance	<u>\$ 570,772</u>	<u>1,132,977</u>	<u>(53,604)</u>	<u>(1,186,581)</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
RESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2011

	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	353,238	394,060	395,583	1,523
Government grants - state	941,452	1,055,164	1,264,366	209,202
Contracts - local	-	-	-	-
Private grants/contracts	6,881	2,495	-	(2,495)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	1,301,571	1,451,719	1,659,949	208,230
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	1,301,571	1,451,719	1,659,949	208,230
Expenditures				
Instruction	259,148	303,758	307,485	3,727
Academic support	57,811	46,043	44,773	(1,270)
Student services	127,385	102,916	105,078	2,162
Institutional support	47,757	31,517	31,818	301
Oper. & maint. of plant	809,470	967,485	1,170,795	203,310
Total expenditures	1,301,571	1,451,719	1,659,949	208,230
Change in net assets-budgetary basis	\$ -	-	-	-

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
Year Ended June 30, 2011

Schedule 1
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	Pledged Collateral		Bank of	Wells Fargo	Community	State	Total	
	Safekeeping Location	Type of Security	Las Vegas Las Vegas, NM	Albuquerque, NM	1st Bank Las Vegas, NM	Treasurer Santa Fe, NM		
Funds on deposit								
Demand deposits			\$ 1,195,946	150,491	19,313,947	345,913	21,006,297	
FDIC insurance								
Demand deposits			(250,000)	(150,491)	(250,000)	-	(650,491)	
Total uninsured public funds			\$ 945,946	-	19,063,947	345,913	20,355,806	
Fifty percent collateral requirement per section 6-10-17 NMSA			\$ 472,973	-	9,531,974	N/A	10,004,947	
Pledged collateral								
	FHLB of Dallas	Irrevocable Standby Letters of Credit	1400000069	-	-	5,500,000	-	5,500,000
	FHLB of Dallas	FHLB Bonds						
		CUSIP #313370MD7	506,090	-	-	-	-	506,090
		CUSIP #313372NX8	505,855	-	-	-	-	505,855
	Federal Reserve Bank	FHLB Notes						
		CUSIP #3133XAKZ9	-	-	542,679	-	-	542,679
		CUSIP #3133XLWM1	-	-	2,272,651	-	-	2,272,651
		CUSIP #3133XLWM1	-	-	4,545,302	-	-	4,545,302
		FNMA ARM						
		CUSIP #31416BLS5	-	-	310,284	-	-	310,284
			1,011,945	-	13,170,916	-	-	14,182,861
Deficiency / (Excess) of pledged collateral over the required amount			\$ (538,972)	-	(3,638,942)	N/A	(4,177,914)	
Funds on Deposit with no collateral requirements (New Mexico Finance Authority) Debt Service Funds			\$ 2,400,239					

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
Year Ended June 30, 2011

Schedule 1
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<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 (deficit)	Checking	\$ 784,212	\$ (253,800)
Payroll account	Checking	190,873	147,227
University wire-transfer account	Checking	121,352	121,352
Cash receipts account	Checking	74,778	82,257
Cashier's credit card account	Checking	23,775	28,749
Direct lending account	Checking	956	956
Total		<u>1,195,946</u>	<u>126,741</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Checking	1,685	2,219
Rio credit card	Checking	4,158	4,158
NMHU business	Checking	109,646	109,646
Online payments	Checking	13,539	17,661
NMHU Golf Course	Checking	12,688	12,688
Farmington	Checking	8,775	8,775
Total		<u>150,491</u>	<u>155,147</u>
Community 1st Bank - Las Vegas			
Capital Outlay	MMDA	10,885,172	10,885,172
NMHU Savings	Savings	8,428,775	8,428,775
		<u>19,313,947</u>	<u>19,313,947</u>
Bank of NY Mellon			
NMFA/NMHU	Reserve	1,340,131	1,340,131
	Reserve	361,194	361,194
	Reserve	698,914	698,914
		<u>2,400,239</u>	<u>2,400,239</u>
State Treasurer's Office			
Local government investments	Pooled	128,792	128,792
Local government investments	Pooled	217,121	217,121
		<u>345,913</u>	<u>345,913</u>
Cashier's cash			
		<u>-</u>	<u>15,715</u>
	Total cash and cash equivalents	<u><u>23,406,536</u></u>	<u><u>22,357,702</u></u>
University Investments:			
State investment council	Pooled	2,556,775	2,556,775
State investment council (land grant)	Pooled	3,011,708	3,011,708
	Total investments	<u><u>\$ 5,568,483</u></u>	<u><u>\$ 5,568,483</u></u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
Year Ended June 30, 2011**

**Schedule 1
Page 3 of 4**

Foundation		
Investments:		<u>Amount</u>
Cash and Money Market Funds	Pooled	<u>825,133</u>

Stocks		<u>Amount</u>
Common Stocks		5,126
Preferred Stocks		<u>3,030,742</u>
Total Stocks		<u>3,035,868</u>

US Government Securities

Name	Maturity Date	Amount	Interest Rate
US Treasury	8/15/2011	15,093	5.00%
US Treasury	4/30/2012	74,491	1.00%
US Treasury	11/15/2012	51,461	4.00%
US Treasury	5/15/2013	61,045	1.38%
US Treasury	5/31/2014	85,478	2.25%
US Treasury	5/15/2011	71,485	4.50%
US Treasury	5/15/2019	18,585	3.13%
US Treasury	11/15/2020	46,230	2.63%
Total Government Securities		<u>423,868</u>	<u>3.98%</u>

Name	Maturity Date	Amount	Interest Rate
U.S. Agency			
Federal Home loan	7/15/2012	39,927	5.13%
Federal Home loan	7/15/2013	43,249	4.50%
Federal Natl Mtg Assn	10/15/2014	38,947	4.63%
Total U.S. Agency		<u>122,123</u>	<u>3.56%</u> BAA1/BBB

International Bonds

Name	Maturity Date	Amount	Interest Rate
Ingersoll-Rand Co	4/15/2012	5,098	4.50%
Total International Bonds		<u>5,098</u>	<u>4.50%</u> BAA Rating

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
Year Ended June 30, 2011

Schedule 1
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Foundation (Continued)
Investments (Continued):

Corporate Bonds

Name	Maturity Date	Amount	Interest Rate	Rating
Merrill Lunch	7/25/2011	24,994	5.77%	A2/A
BellSouth Corp	10/15/2011	25,380	6.00%	A2/A
Bank of America	9/15/2012	36,476	4.88%	A2/A
IBM Corp	11/29/2012	26,424	4.75%	AA3/A+
General Electric	5/1/2013	26,547	4.80%	AA2/AA+
Eli Lilly & Co	3/6/2014	43,185	4.20%	A2/AA-
El Du Pon De Nmeour	1/15/2015	26,197	3.25%	A2/A
JP Morgan Chase & Co.	1/20/2015	20,796	3.70%	AA3/A+
Western Union	10/1/2016	22,615	5.93%	A3/A-
Abbott Laboratories	11/30/2017	17,384	5.60%	A1/AA
Wells Fargo & Co	12/11/2017	27,615	5.63%	A1/AA-
UPS	1/15/2018	11,340	5.50%	AA3/AA-
Sysco Corp	2/12/2018	16,552	5.25%	A1/A+
Procter & Gamble Co	2/15/2019	19,864	4.70%	AA3/AA-
Coca Cola Co	3/15/2019	44,282	4.88%	AA3/A+
Borgwarner Inc	4/15/2012	7,410	3.50%	BBB
Amgen Inc CV	2/1/2013	11,041	0.38%	A3/A+
Medtronic Inc Global CV	4/15/2013	9,203	1.63%	A1/AA-
Textron Inc Conv	5/1/2013	3,738	4.50%	BBB-
Symantec Corp Global	6/15/2013	7,290	1.00%	BBB
Molson Coors Brewing Co	7/30/2013	4,390	2.50%	BBB-
Tyson Foods Inc	10/15/2013	2,580	3.25%	BB+
EMC Corp Global	12/1/2013	14,020	1.75%	A-
Alcoa Inc Conv	3/15/2014	5,073	5.25%	BAA3/BBB-
Allegheny Technologies Inc	6/1/2014	6,620	4.25%	BBB-
Navistar Intl	10/15/2014	2,616	3.00%	B1/B
CB Prologis	3/15/2015	2,288	3.25%	BBB-
MF Global Holdings	2/1/2016	1,983	1.88%	BAA2/BBB-
Xilinx, Inc	6/15/2017	1,333	2.63%	BBB
Newmont Mining Corp Notes	7/15/2017	8,070	1.63%	BBB+
Danaher Corp	1/22/2021	10,771	0.00%	A2/A+
Invitrogen Corp	2/15/2024	6,855	1.50%	BBB
TEVA Pharmaceutical	2/1/2026	5,581	0.25%	A3/A-
Cooper Cameron Intl	6/15/2026	8,588	2.50%	BAA1/BBB+
Health Care Reit Inc	7/15/2027	5,631	4.75%	BAA2/BBB-
Jefferies Group Inc	11/1/2029	7,000	3.88%	BAA2/BBB
3M Company Conv	11/21/2032	2,899	0.01%	AA2/AA-
Intel Corp Conv	12/15/2035	10,338	2.95%	A-
Boston Prop LP	12/15/2037	4,010	2.88%	A-
Porlogis Conv	4/1/2037	1,993	2.25%	BBB-
Transocean Inc	12/15/2037	9,983	1.50%	BAA3/BBB
Total Corporate Bonds		<u>550,955</u>	<u>3.36%</u>	

Total Foundation Investments 4,963,045

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF JOINT POWERS AGREEMENTS (JPA's) AND MEMORANDUMS OF UNDERSTANDING (MOU's)
 Year Ended June 30, 2011

TYPE of Agreement	List of all Participants	Responsible operating party	Beginning Date	Ending Date	Total Estimated \$ of project	Portion \$ applicable to NMHU	Amount Contributed (FY11)	Audit Responsibility	Fiscal Agent	Name of Government Agency	Purpose
MOU	NMHU & DFA	NMHU		6/30/2011	\$ 100,000	\$ 100,000	\$ 99,065	NMHU	Angela Quintana	DFA	To provide funding for the rodeo program.
MOU	NMHU & Department of Cultural Affairs	NMHU	8/17/2010	6/30/2013	62,600	62,600	4,478	NMHU	Stuart Ashman	Department of Cultural Affairs	To promote training of students for careers in museums, libraries, and other cultural institutions and professional settings.
MOU	NMHU & NM HED	NMHU	1/8/2007	3/31/2011	40,000	40,000	82	NMHU	Brandon Trujillo	NM Higher Education Department	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		6/30/2011	250,000	250,000	4,169	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		9/30/2010	141,000	141,000	31,669	NMHU	Elizabeth Gutierrez	NM Higher Education Department	Carry mandates of No Child Left Behind Title II Part A Improving Teacher Quality
JPA	NMHU & NM Energy, Minerals, and Nat. Res. Dept.	NMHU	9/5/2008	6/30/2011	70,000	70,000	48,224	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 & Department of Cultural Affairs	NMHU	8/11/2009	6/30/2012	68,000	68,000	26,728	NMHU	Danette Trujillo	Department of Cultural Affairs	To provide for the training of all internships for students at NMHU pertaining to the use of media technologies by museums, libraries, and cultural institutions
MOU	NMHU & LUNA Community College	NMHU	3/24/2011		-	-	-	NMHU	Vidal Martinez	LUNA Community College	Students completing the Associates of Applied Science Degree in Sports Performance and LUNA can apply those credits and courses toward a Bachelors of Art in Human Performance and Sport with a concentration in Exercise Science or Bachelors of Art in Health with a concentration in Health Promotion and Wellness at NMHU
MOU	NMHU & NMJC	NMHU			5,600	5,600	5,600	NMHU		Northern New Mexico College (NNMC)	To provide student support services for NMHU School of Social Work students and to provide a long distance fax code for JCC office NNMC.
MOU	NMHU & LV/SMCOEM	NMHU	10/28/2009		-	-	-	NMHU	Dennis English	Las Vegas/San Miguel County Office Emergency Management	To provide proper coordination and expeditious delivery of support and assistance to the citizens of the city of Las Vegas and San Miguel County, New Mexico during an emergency or disaster response.
MOU	NMHU & Region IV Narcotics Task Force	NMHU	12/15/2009		-	-	-	NMHU	Gary Gold	Region IV Narcotics Task Force	To maintain a multi-jurisdictional task force (law enforcement body) in Region IV, which will coordinate available resources to combat a problem common to their respective agencies, the illegal possession, use, manufacture, and distribution of narcotics and dangerous drugs, particularly within the jurisdiction covered by the agencies.
MOU	NMHU & TRIBES	NMHU	2/19/2009	6/30/2012	84,359	84,359	37,548	NMHU	Norman Coeoyate	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); total scholarship awarded were 19.
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.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor/Program Title	CFDA#	Sub Award #	Expenditures
Research and Development Cluster			
National Institute of Health			
NIH/RIMI Mod I 10/04-9/05	93.307	N/A	\$ 52,810
NIH/Polymorphs 8/08-7/11	93.855	N/A	110,456
Total National Institute of Health			<u>163,266</u>
National Science Foundation			
NSF- Stem Stars 1/10-12/11	47.076	N/A	70,998
Collaborative Research of Central High Plains	47.050	N/A	12,146
Passed through University of Central Florida			
SOAP	47.049	CHE-0832622	36,911
Passed through University of Washington			
NSF/UW-Structural Study 8/07 - 7/08	47.049	450063	11,252
Passed through Arizona State University			
WAESO Spring 2010	47.076	KMS0019-7-49/SUB	2,216
WAESO Fall 2010	47.076	KMS0019-7-51/SUB	847
WAESO Spring 2011	47.076	KMS0019-7-52/SUB	1,521
Passed through University of New Mexico			
EPSCOR/UNM 9/08-08/09	47.080	063013-8744	88,048
EPSCOR Infrastructure Seed Program	47.080	063013-8744/SUB	11,214
Total National Science Foundation			<u>235,153</u>
United States Department of Agriculture			
USDA/SASE 7/06-7/09	10.223	N/A	8,381
USDA/SASE Scholarship 7/06-7/11	10.223	N/A	14,056
Passed through New Mexico State University			
NMSU-CSREES 1/09-8/11	10.217	Q01313	21,880
Total United States Department of Agriculture			<u>44,317</u>
United States Department of Health and Human Services			
Passed through New Mexico State University			
INBRE/NMSU/Linder 3/10-2/11	93.389	Q01348	62,206
INBRE/NMSU/Sammeth 3/10-2/11	93.389	Q01348	14,763
INBRE/NMSU/TBD	93.389	Q01348	88,586
INBRE/NMSU/Sammeth	93.389	Q01348	9,875
INBRE/NMSU/Linder	93.389	Q01348	34,000
INBRE/NMSU/Plunkett	93.389	Q01348	43,895
Total Department of Health and Human Services			<u>253,325</u>
Total Research and Development Cluster			<u>696,061</u>
United States Department of Education			
Student Financial Aid Cluster			
Federal SEOG	84.007	N/A	186,633
Fed W/S - Instruction	84.033	N/A	70,592
Fed W/S - Academic Support	84.033	N/A	35,034
Fed W/S - Student Services	84.033	N/A	76,269
Fed W/S - Institutional Support	84.033	N/A	12,807
Fed W/S - Operation & Maint.	84.033	N/A	12,089
Fed W/S - Social & Cultural	84.033	N/A	44,769
Fed W/S - Organized Research	84.033	N/A	2,972
Fed W/S - Public Service	84.033	N/A	29,367
Fed W/S - Internal Service	84.033	N/A	12,535
Fed W/S - Auxiliaries	84.033	N/A	28,187
Fed W/S - Athletics	84.033	N/A	2,952
Federal PELL	84.063	N/A	5,997,305
ACG	84.375	N/A	73,957
SMART	84.376	N/A	49,500
TEACH	84.379	N/A	39,000
Total Student Financial Aid Cluster - US Department of Education			<u>6,673,968</u>
TRIO Programs Cluster			
Upward Bound	84.047A	N/A	518,047
Support Services 9/05-8/09	84.042A	N/A	74,352
Student Support Services	84.042A	N/A	405,143
Total TRIO Programs Cluster - US Department of Education			<u>997,542</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011**

Federal Grantor/Program Title	CFDA#	Sub Award #	Expenditures
State Stabilization and Fund Cluster			
Passed through NM Higher Education Department			
ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394A	NMHU 957-1	718,400
ARRA - State Fiscal Stabilization Fund - Government Services	84.397A	GSF-HED-02CESDP	239,162
Passed through Public Education Department			
ARRA - State Fiscal Stabilization Fund - Government Services	84.397	10 924 9999 0214	327,232
Passed through University of New Mexico			
ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394	P0103152	6,370
Total State Stabilization and Fund Cluster			<u>1,291,164</u>
Other US Department of Education Awards			
US Dept Ed/CCRAA/HSI 10/08-9/10	84.031C	N/A	572,635
Dept Ed Rehab Counseling 8/04-7/05	84.129B	N/A	828
Dept Ed Rehab Counseling 10/09-9/14	84.129B	N/A	187,963
Dept Ed Rehab Counseling 8/08-7/13	84.129F	N/A	101,824
Natl Prof Dev Pgrm/CESDP 7/07-7/12	84.195N	N/A	299,961
US Dept Ed/CESDP/Gear up 9/05-8/11	84.334A	N/A	572,652
NMHU/NNM GEAR-UP 8/07-8/13	84.334A	N/A	978,487
Passed through Public Education Department			
AP Reduced Fee Exam	84.330B	1192400022	117,858
Passed through Northern New Mexico Community College			
EOS/NNM/Title V 10/06-9/07	84.031S	Sub # 411544201122	213,302
Other US Department of Education Awards			<u>3,045,510</u>
Total US Department of Education			<u>12,008,184</u>
US Department of Energy			
ARRA - Building Retrofit & Recycling Program	81.041	10-521-R1DOE00001-0268	440,307
United States Department of Health and Human Services			
SAMHSA/HU Campus Suicide 9/09-9/12	93.143	5U79SM058973-02	113,971
Passed Through NM Department of Children Youth and Families			
Foster Care - Title IV-E	93.658	11-690-12099	1,579,371
Total US Department of Human Services			<u>1,693,342</u>
Corporation for National and Community Service			
Passed Through NM Department of Children Youth and Families			
AmeriCorps Cultural Tech Program	94.006	11-690-12352	117,811
United States Department of Agriculture			
USDA/NM FWRI 01/09	10.694	10-DG-11031600-051	194,881
USDA/SASE II	10.223	2010-38422-21639	60,688
Passed through Cooperative State Research, Education and Extension Service			
USDA/FRRRE 08/09-07/11	10.223	2009-38422-19868	107,843
Total US Department of Agriculture			<u>363,412</u>
Total Federal Awards expended			<u>\$ 15,319,117</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES
FEDERAL AWARDS
June 30, 2011**

NOTE 1. 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 2011 or accrued revenue at June 30, 2011. This schedule has been prepared on the accrual basis of accounting. Revenues are recorded for financial reporting purposes when the institute has met the qualifications for the respective program.

NOTE 2. 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 3. STUDENT FINANCIAL ASSISTANCE – LOAN PROGRAMS

During the fiscal year ended June 30, 2011, the University processed \$12,928,240 in direct loans (which includes Stafford Loans and Parent's Plus Loans) under the Direct Loan Program (CFDA 84.268).

NOTE 4. OTHER DISCLOSURES

The University did not receive any non-cash assistance; there was no insurance in effect during the year and no federal loan guarantees outstanding at year-end.

**Report of Independent Auditors on Internal Control
 Over Financial Reporting and on Compliance and Other
 Matters Based on an Audit of Financial Statements
 Performed in Accordance With *Government Auditing Standards***

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 each discretely presented component unit of New Mexico Highlands University (“University”) as of and for the year ended June 30, 2011. We have also audited the budget comparisons for the year ended June 30, 2011. We have issued our report on the financial statements and budget comparisons described above dated November 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal controls 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.

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

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 items 03-17 and 11-04.

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.

Mess Adams LLP

Albuquerque, New Mexico
November 9, 2011

**Report of Independent Auditors on Compliance With
Requirements That Could Have a Direct and Material Effect
On 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2011. 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, 2011. 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 11-01 to 11-03.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-01 to 11-03. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 response 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.

Mess Adams LLP

Albuquerque, New Mexico
November 9, 2011

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATUS OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2011**

Prior Year Finding Description

03-17 Budget Overspending

10-01 Time and Effort Certifications (Non-Compliance)

10-02 Journal Entry Approvals

Status

Repeated and Revised

Resolved

Resolved

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2011**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued **Unqualified**

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None reported

Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? 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? Yes No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Aid Cluster
84.042A/84.047A	TRIO Cluster
84.394/84.397	State Fiscal Stabilization Fund Cluster
81.041	Building Retrofit and Recycling

Dollar threshold used to distinguish between type A and type B programs **\$ 300,000**

Auditee qualified as low-risk auditee? Yes No

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011

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

11-01 No documentation of approved application (Significant Deficiency/Non-Compliance)

Funding agency: Department of Education
Title: Upward Bound Program
CFDA Number: 84.047

Condition:

During our testing of stipends we noted one out of twenty-five student applications tested within the Upward Bound program, CFDA #84.047 did not include documentation of approval by the program.

Criteria:

Per the grant agreement, in order to receive stipends and be enrolled in the Upward Bound program, students must be low-income individuals and/or potential first-generation college students. In order to ensure students are eligible to be enrolled in the program proper controls include documentation of the review and approval of each student application.

Questioned Costs:

None.

Effect:

Students who are not eligible to be enrolled in the program could potentially be included in the program and receive stipends.

Cause:

The student's application was not documented as reviewed and approved because at the time of enrollment the student did not have all of their required documentation. The program failed to later update the application as approved.

Recommendation:

We recommend the Upward Bound program ensure all student applications are reviewed and signed off as approved.

Response:

The student on enrollment failed to produce one document, which the student did provide on his next visit. The staff member responsible failed to authenticate the record with his signature. Upon discovery by the auditor, the responsible staff member immediately authenticated the record with his signature.

Protocol was established to assure that all students must have all the documentation prior to enrollment.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

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

11-02 Incorrect Reporting (Significant Deficiency/Non-Compliance)

**Funding agency: Department of Education, passed through Higher Education
Department, Grant number NMHV 957-1**

Title: State Fiscal Stabilization Fund Government Service (ARRA)

CFDA Number: 84.397

Condition:

During our testing of allowable cost compliance we noted the NMHU CESDP ARRA program, CFDA #84.397 did not report the hours for pay period 2010 BI 14 for one employee.

Criteria:

According to the Subgrant agreement, 1512 reports are required to be submitted on the federal website. We noted in our Allowable cost payroll testwork the hours were not reported for one employee.

Questioned Costs:

None.

Effect:

Failure to comply with federal reporting requirements could result in a loss of funding.

Cause:

The payroll reconciliation of payroll to hours reported in CertiClear was not done timely.

Recommendation:

We recommend the NMHU CESDP ARRA program reconcile all payroll and CertiClear reports timely.

Response:

As the University was conducting their reconciliation, we noted that the hours for two ARRA grants were not reported. The 1512 CertiClear system locks out users from making necessary changes based on time lines. Since personnel from the University were locked out of the system, we've then communicated the errors to the implementing agencies, which in turn communicated with NMORR to make the necessary corrections. The corrections were made to one of the ARRA grants but not the other. NMORR had an email from the implementing agency that all hours have been reported correctly. When the University verified for corrections and noticed that one of the errors were not corrected, it was communicated to both the implementing agency and NMORR; however, they no longer had access to make the necessary changes as they were now locked out of the 1512 CertiClear system.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

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

11-03 Student Financial Aid - Return to Title IV (Significant Deficiency/Non-Compliance)

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

Condition

During our test work of the Student Financial Aid program, we determined that the total semester days were not calculated correctly. The amount of number of days of no classes was understated, which resulted in overstatement of the University's portion of the student returns. A subsequent full file review by the University resulted in a total misstatement of \$8,745. Also, 1 of the 10 students tested had a late return.

Criteria

Per 34 CFR section 668.22(e)(2), the amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the students' withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of more than 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours.

Additionally, per 34 CFR section 668.22(f), the percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in credit hours by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date. The total number of calendar days in a payment or enrollment period includes all days within the period, except that institutionally scheduled breaks of at least 5 consecutive calendar days and days in which the student was on an approved leave of absence are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period.

Also, per 34 CFR section 668.22(j), an institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: (1) payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

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

**11-03 Student Financial Aid – Return to Title IV (Significant Deficiency/Non-
Compliance) (Continued)**

Criteria (Continued)

Lastly, per 34 CFR section 668.173(b), returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew.

Questioned Costs

None noted.

Effect

Improper calculation of days for scheduled breaks could result in incorrect refunding of federal funds. Also, failure to return funds timely could result in improper use of federal funds.

Cause

The number of days off used in the return calculations for both Fall and Spring semester were incorrect. Additionally, the one late payment was caused by human error in the payment process.

Recommendation

We recommend that the University ensures that the return review process is designed to capture errors in the inclusion and/or exclusion of days and in the payment processing procedures.

Management Response

Based on prior Department of Education training (June 2009); financial aid associate director who oversees Return to Title IV, asked the trainer if we were entering the break periods correctly, he assured that we were reporting our break periods correctly. However, after a thorough review of the guidance in the federal student aid handbook and consultation with another Department of Education official, we have confirmed that we do need to report the weekends before and after Spring break (from 5 days to 9 days) and the weekend following Thanksgiving break (bringing this to the minimum 5 days versus the original 3 days) that must be excluded from the total number of days in a semester.

We have recalculated all withdrawals, official and unofficial for fall and spring 2010-11 and have determined that we over paid the federal programs by a cumulative total of \$8,475. Going forward, we have corrected the current semester (fall 2011) as well as the spring 2012 information in the R2T4 system. It will be noted in policies and procedures, the director will

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

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

**11-03 Student Financial Aid - Return to Title IV (Significant Deficiency/Non-
Compliance) (Continued)**

Management Response (Continued)

confirm the initial entry regarding the total number of days in the payment period for the R2T4 calculation.

We will also note in policies and procedures, that in order to maintain continuity, the financial aid accountant will serve as back-up to the associate director in following up on all R2T4 issues in order to avoid delays in returning funds.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

**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 combined revenues and expenditures budget in the following categories:

Instructions and General *	\$ 556,579
Auxiliary enterprises	\$ 576,351
Capital outlay	\$ 1,775,306
Renewal and replacements	\$ 275,063

*Additionally, we noted that the University overspent unrestricted instruction and general ledger by \$348,349 and restricted instruction and general by \$208,230.

Criteria

Per 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.

Cause

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

Effect

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

Recommendation

We recommend that University budget controls and processes be strengthened to ensure that budgeted amounts are not overspent and budget adjustment requests are completed on a timely basis.

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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

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

11-04 Notification of Property Disposition

Condition

During our testwork, it was noted that deletions of fixed assets had occurred at the University without notification to the New Mexico State Auditor. During the fiscal year, the University disposed of assets with an original cost of \$602,645.

Criteria

Per Section 2.2.2.10 (v) of the New Mexico State Audit Rule "Sections 13-6-1 and 13-6-2 NMSA 1978 govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts, and state educational institutions. At least thirty days prior to any disposition of property on the agency inventory list described below in Subsection Y of 2.2.2.10 NMAC, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the New Mexico State Auditor.

In the event a computer is included in the planned disposition, the agency shall "sanitize" or effectively make "inaccessible," all licensed software and any electronic media pertaining to the agency. Hard drive erasure or destruction certification is still required even if the asset originally cost less than \$5,000 and was not included in the capital asset inventory. According to the May 5, 2002 memorandum from the Chief Information Technology Security and Privacy Office on this subject, "ordinary file deletion procedures do not erase the information stored on hard disks or other magnetic media. Sanitizing erases or overwrites totally and unequivocally, all information stored on the media.

The agency will certify in writing the proper erasure or destruction of the hard drive and submit the certification along with the notification of the proposed disposition of property to the State Auditor at least thirty days prior to taking action."

Cause

The University did not send the notification to the New Mexico State Auditor prior to the dispositions as the individuals responsible for this area were not aware of the requirement.

Effect

The University disposed of items with proper notification to the New Mexico State Auditor, and thus was not in compliance with the New Mexico State Audit Rule.

Recommendation

We recommend that procedures be developed and placed into operation to ensure that all deletions from the fixed asset inventory are handled in accordance with the New Mexico State Audit Rule.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

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

11-04 Notification of Property Disposition (Continued)

Management response

The University concurs with this finding and will develop procedures and place them into operation to ensure that all deletions from the fixed asset inventory are handled in accordance with the New Mexico State Audit Rule.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2011**

An exit conference was held on November 2, 2011. Attending were the following:

Representing New Mexico Highlands University:

Jesus Lopez, Regent
Lawrence Trujillo, Associate Vice President of Finance
Dr. James Fries, President
Jesus Baquera, Assistant Controller
Darlene Tapia, Coordinator of Fiscal Services
Eileen Bentley, Budget Director
Donna Castro, Human Resource Director
Michael Saavedra, Purchasing Director
Gayle Martinez, Restricted Funds Supervisor
Dominic Chavez, General Funds Supervisor

Representing New Mexico Highlands University Foundation:

Darlene Chavez, Business Manager of Foundation

Representing New Mexico Highlands University Stable Isotope Corporation:

Dr. James Fries, Vice President

Representing Moss Adams LLP:

Scott Eliason, CPA, Partner
Molly Saiz, Supervisor

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