



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

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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

LETTER FROM THE PRESIDENT	i
BOARD OF REGENTS AND PRINCIPAL OFFICERS .....	1
REPORT OF INDEPENDENT AUDITORS.....	2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Assets .....	24
Statement of Revenues, Expenses and Changes in Net Assets.....	25
Statement of Cash Flows.....	26
Notes to Financial Statements.....	27
<b>SUPPLEMENTARY INFORMATION</b>	
Combined Revenues and Expenditures Budget Comparisons.....	47
Unrestricted Current Funds Summary of Instruction and General Revenues and Expenditures Budget Comparisons.....	48
Restricted Current Funds Summary of Instruction and General Revenues and Expenditures Budget Comparisons.....	49

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

**SUPPLEMENTARY INFORMATION (CONTINUED)**

Schedule of Individual Deposit Accounts and Pledged Collateral .....	50
Schedule of Joint Powers Agreements and Memorandums of Understanding .....	54
Schedule of Expenditures of Federal Awards .....	55
Notes to the Schedule of Federal Expenditures .....	57

**SINGLE AUDIT SECTION**

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 <i>Government Auditing Standards</i> .....	58
Report of Independent Auditors on Compliance With Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133 .....	60
Summary of Prior Year Audit Findings .....	62
Schedule of Findings and Questioned Costs .....	63
Exit Conference.....	70

## 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 36 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. Highlands 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 and major remodeling of the Lora Shields Science Building, Felix Martinez Building, and Natatorium, all of which have been LEED Gold certified. In addition, a new Student Union is now under construction. Numerous sustainability projects, including water catchment systems with a total capacity of 305,000 gallons, have been completed. Implementation of the Highlands's Strategic Plan and Campus Master Plan continue to move forward.

The first university in the State to achieve wireless status, Highlands remains committed to ever more effective uses of technology in the delivery of its educational programs and administrative processes. Two major software programs, Desire2Learn and DegreeWorks, were introduced in the Spring of 2012. 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.

Highlands 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. Highlands is moving forward on all fronts by enhancing the educational opportunities and services available for our students.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
June 30, 2012**

**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 & Administration
Vacant	Associate Vice President for Finance & Administration

**Principal Financial Officials**

Vacant	Controller
Jesus E. Baquera	Assistant Controller

## 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 basic financial statements of the business-type activities and each discretely presented component unit of the New Mexico Highlands University (the University) as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons presented as supplementary information for the year ended June 30, 2012 as listed in the table of contents. These 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 opinions.

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, 2012, 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.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the New Mexico Highlands University as of June 30, 2012, 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, 2012 in conformity with the budgetary basis of accounting prescribed by the New Mexico Administrative Code, as

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

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 14, 2012 on our consideration of New Mexico Highlands University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion on pages 5 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's financial statements and the budget comparisons. The accompanying *Schedule of Individual Deposit Accounts and Pledged Collateral, and Schedule of Joint Powers Agreements and Memorandums of Understanding* as required by the New Mexico State Audit Rule and the *Schedule of Expenditures of Federal Awards* as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

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

United States of America. In our opinion, the *Schedule of Individual Deposit Accounts and Pledged Collateral, and Schedule of Joint Powers Agreements and Memorandums of Understanding and Schedule of Expenditures of Federal Awards* are fairly stated in all material respects in relation to the financial statements as a whole.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 14, 2012



**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**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, 2012. 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**, 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 Isotopes 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, 2012). 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, 2012). 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, income from state government appropriations, although not earned, are heavily relied upon to pay operating expenses for almost all instruction and general programs;

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**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, 2012). 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](mailto:slweaver@nmhu.edu))).

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**Financial Highlights**

During the fiscal year ended June 30, 2012, the University's net assets decreased by 7.0% from \$72.6 million to \$67.9 million and cash and cash equivalents decreased by 27%, from \$22.4 million to \$17.6 million.

**CONDENSED STATEMENT OF NET ASSETS**

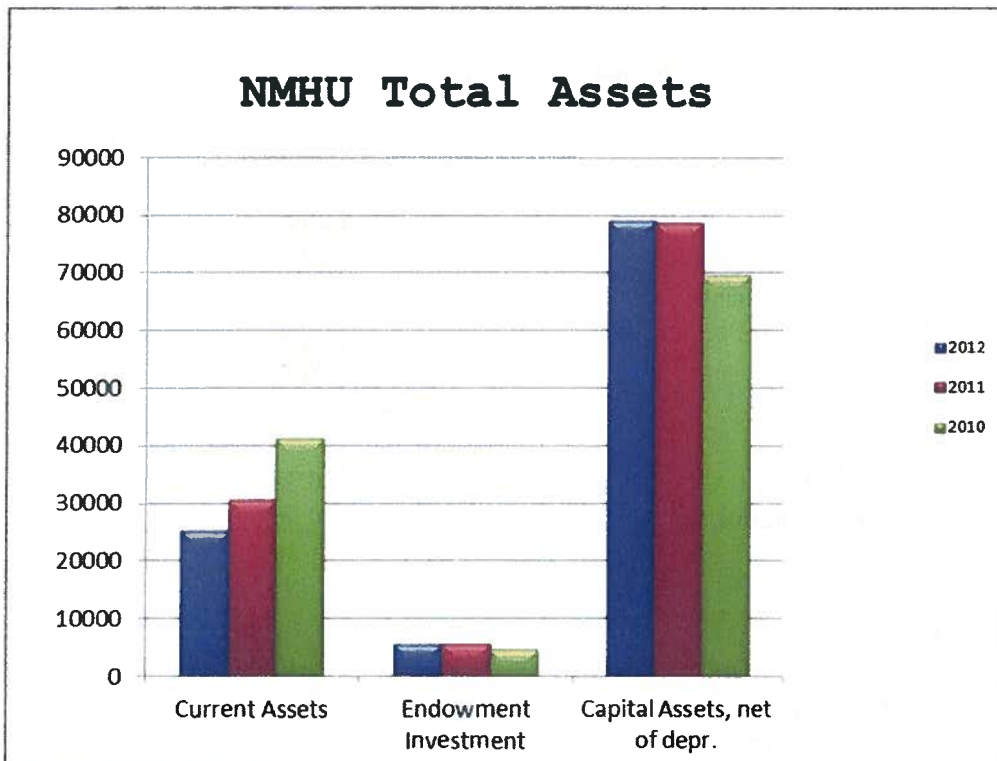
<b>Net Assets as of June 30: (thousands)</b>		
	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Assets:</b>		
Current assets	\$23,820	\$29,886
Due from component unit	874	606
Endowment investments	5,510	5,568
Capital assets, net of accum. depr.	<u>78,987</u>	<u>78,682</u>
Total assets	<u>109,191</u>	<u>114,743</u>
<b>Liabilities:</b>		
Current liabilities	10,327	10,405
Non-current liabilities	<u>30,965</u>	<u>31,674</u>
Total liabilities	<u>41,292</u>	<u>42,079</u>
<b>Net Assets:</b>		
Invested in capital assets, net of debt	47,125	46,477
Restricted for nonexpendable	6,742	6,898
Restricted for expendable	13,129	17,169
Unrestricted	<u>904</u>	<u>2,119</u>
Total net assets	<u>\$67,899</u>	<u>\$72,664</u>

**Discussion of Statement of Net Assets**

**Current assets** decreased 21.0% during the year. The ending balance of \$23.8 million consists primarily of cash/cash equivalents (\$17.6 million), assets held by others (\$1.4 million), receivables (\$4.1 million) and other (\$.64 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.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

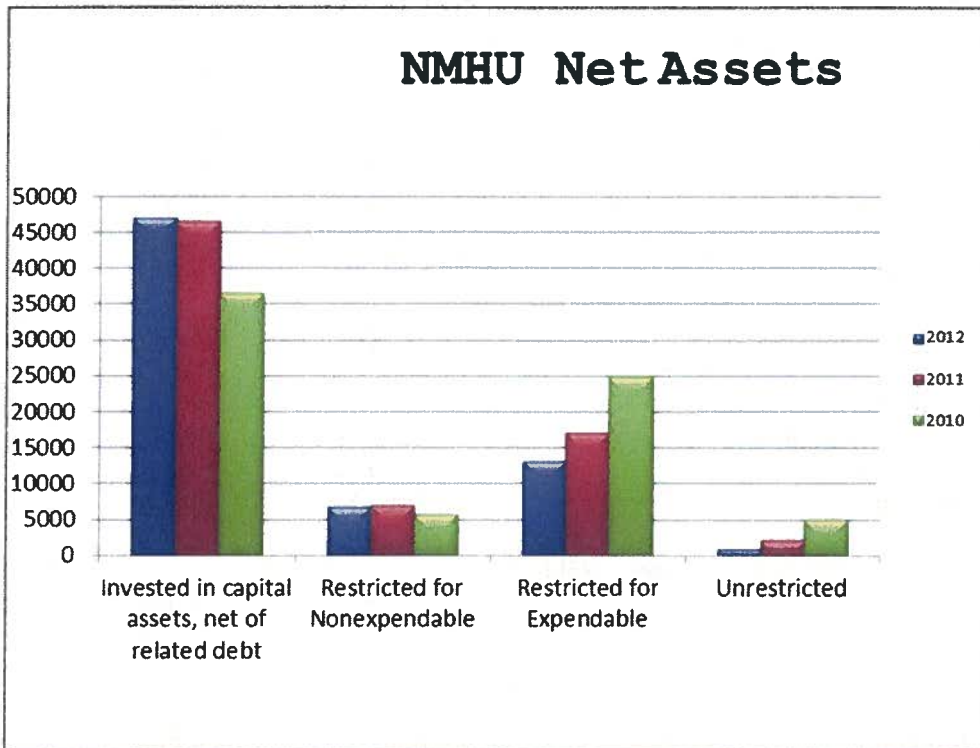
The total cost of **Capital assets** is comprised of land, buildings and improvements, library books, equipment, vehicles, furniture and patents of \$173.5 less accumulated depreciation of \$94.5. All capital assets, except land and construction-in-progress, are being **depreciated**, meaning a percentage of the assets' cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$79.0 million (\$173.5 million cost less \$94.5 million accumulated depreciation).



**Total liabilities** of \$41.3 million constitute 38% of total assets and consist primarily of payables/accrued liabilities and accrued compensated absences (\$6.2 million), bonds/notes payable (\$31.9 million), accrued interest payable of \$0.02 million and deferred revenue (\$2.9 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.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

**Total net assets** decrease by \$4.7 million, or 7.0%, during the year. The ending balance of \$67.9 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 (\$47.1 million). Restricted for nonexpendable (\$6.7 million) represents the University's endowment corpus, whereas restricted for expendable (\$13.1 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$0.9 million) are available to the University for any lawful purpose under the full discretion of management.



**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

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

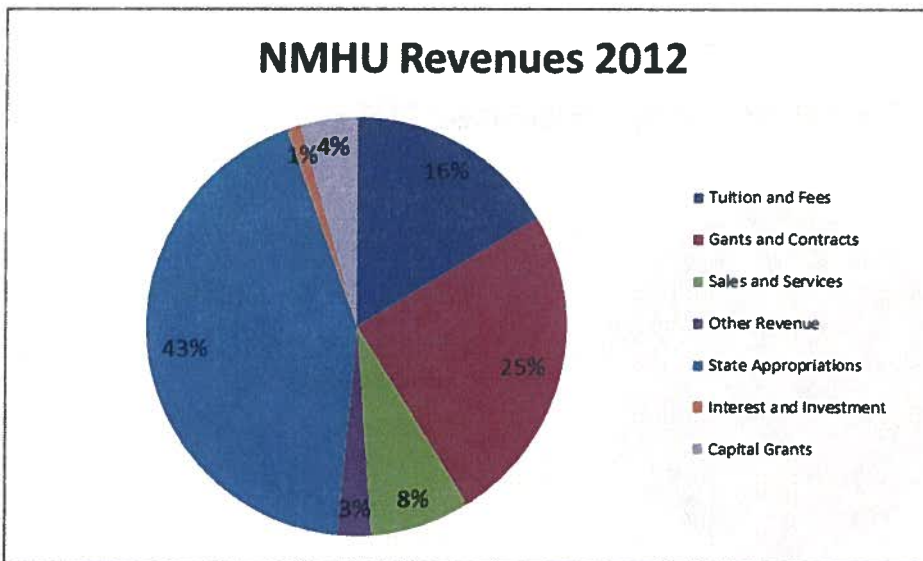
<b>Activities for the years ended June 30: (thousands)</b>		
	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Operating Revenues:</b>		
Tuition and fees, net	\$10,470	\$ 8,982
Grants & contracts	15,886	18,690
Sales and services / other revenue	<u>6,630</u>	<u>7,884</u>
Total operating revenues	<u>32,986</u>	<u>35,556</u>
<b>Operating expenses:</b>		
Instruction and general	33,398	34,521
Other operating expenses	27,672	33,822
Depreciation	<u>6,177</u>	<u>5,838</u>
Total operating expenses	<u>67,247</u>	<u>74,181</u>
Operating loss	<u>(34,261)</u>	<u>(38,625)</u>
<b>Non-operating revenue:</b>		
State general fund appropriations	27,606	28,371
Interest and investment income	<u>676</u>	<u>1,430</u>
Total Non-operating revenue:	<u>28,282</u>	<u>29,801</u>
Loss before other revenue, expenses, gains, losses	<u>(5,979)</u>	<u>(8,824)</u>
Interest on indebtedness	(1,625)	(1,427)
Capital appropriations	<u>2,840</u>	<u>10,292</u>
(Decrease) increase in net assets	<u>(4,764)</u>	<u>42</u>
Net assets, beginning	<u>72,663</u>	<u>72,621</u>
Net assets, ending	<u>\$67,899</u>	<u>\$72,663</u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

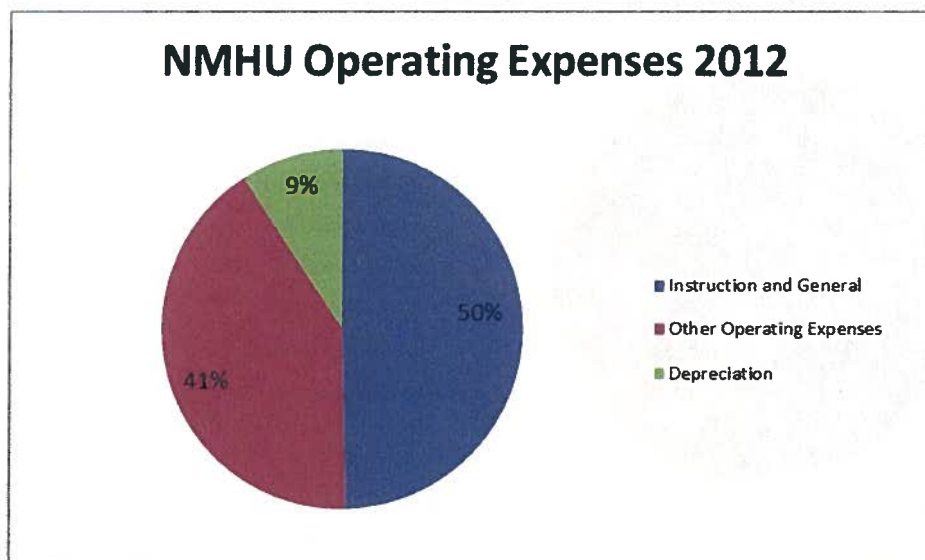
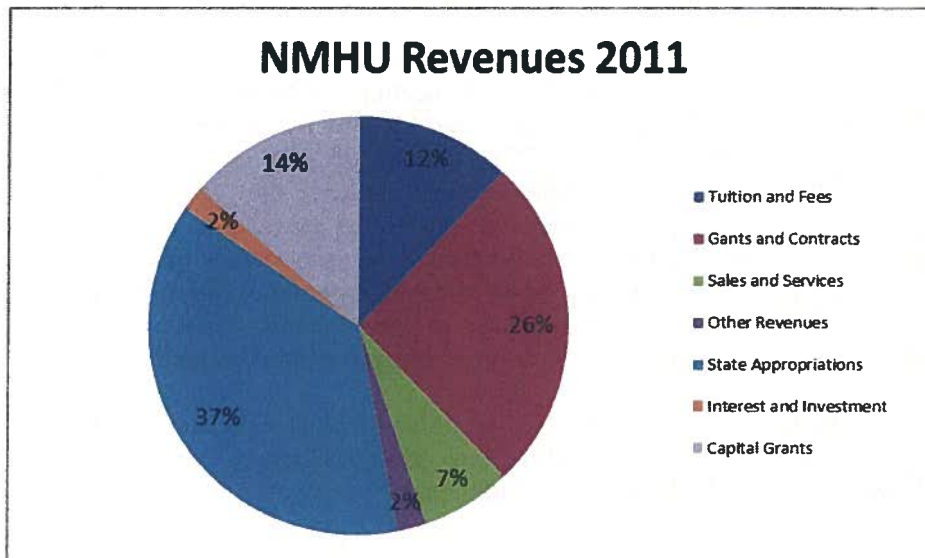
**Discussion of Statement of Revenues, Expenses and Changes in Net Assets**

This statement shows the components that increased, in the aggregate. The University's net assets decreased by \$4.7 million during the year. Operating expenses (\$67.2 million) are subtracted from operating revenues (\$32.9 million), resulting in an "operating loss" (\$34.2 million). State general fund appropriations (\$27.6 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 \$1.6 million of interest of indebtedness offset by \$2.8 million in capital appropriations revenues (federal and state funds designated for construction projects).

State general fund appropriations decreased by \$0.76 million (.027%). The state appropriation for general funds for year ended June 30, 2012 was \$27.6 million as compared to state appropriation for year ended June 30, 2011 at \$28.3 million.

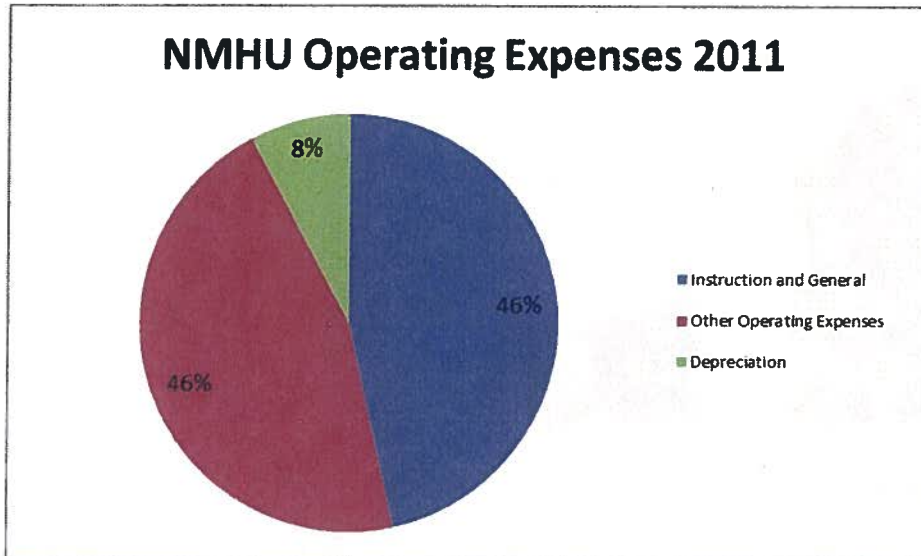


**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**





**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

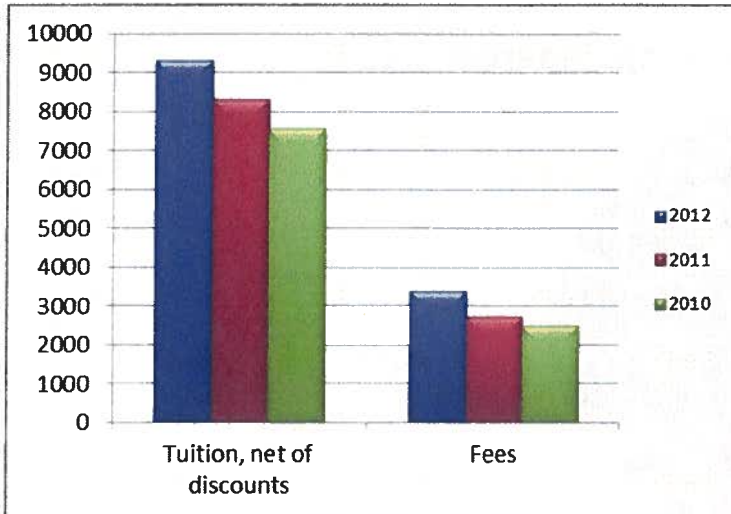


**Analysis of Tuition and Fees Revenue (thousands)**

	<u>2012</u>	<u>2011</u>	<u>Increase</u> <u>(Decrease)</u>	
Tuition	\$9,318	\$8,297	1,021	10.95%
Fees	<u>3,397</u>	<u>2,730</u>	<u>667</u>	19.64%
Subtotal	12,715	11,027	1,688	13.28%
Tuition discounts/allowance	<u>(2,246)</u>	<u>(2,045)</u>	<u>201</u>	8.95%
Net	<u>\$10,469</u>	<u>\$8,982</u>	<u>1,487</u>	14.20 %

Tuition and fees, net of discounts and allowances, increased by 14.20 %; however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees, the latter increased by \$1.7 million, or 13.28%.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**



**CONDENSED STATEMENT OF CASH FLOWS**

Statement of Cash Flows for the years ended June 30: (thousands)		
	2012	2011
Cash flows from operating activities:		
Net cash used by operating activities	\$(27,916)	\$(30,608)
Net cash provided by noncapital financing activities	27,869	28,613
Net cash flow provided by investment activities	1,923	1,430
Net cash used by capital & related financial activity	<u>(6,602)</u>	<u>(7,767)</u>
Net decrease in cash and cash equivalents	(4,727)	(8,332)
Cash and cash equivalents, beginning of year	<u>22,358</u>	<u>30,689</u>
Cash and cash equivalents, end of year	<u>\$ 17,631</u>	<u>\$ 22,357</u>

**Discussion of Statement of Cash Flows**

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University had a \$4.7 million net decrease during the year, resulting in an ending cash balance of \$17.6 million.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**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 has invested heavily in improvements to its campus since 2007, including the development of the University Master Plan. 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 which opened in the fall of 2009 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, and safety poles and cameras. Together, these projects have helped revitalize the campus, allowing us to better meet the needs of the Highlands' community.

In the process, the campus has achieved LEED Silver certification for the new residence hall and LEED Gold certification for extensive remodeling of the Felix Martinez Building, the Lora Shields Building, and the Natatorium. Much of the campus has been xeriscaped and water catchment reservoirs with a total capacity of 305,000 gallons of roof runoff water have been installed. Numerous conservation projects have reduced water and natural gas consumption despite an increase in overall square footage.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

The total projected cost for recently completed and currently planned capital outlay projects is nearly \$95 million. Major highlights include:

- \$19.4 million for a new 276 bed residence hall (project completed)
- \$5.6 million for renovation of the Science Annex (project completed)
- \$3.0 million for roof replacement and a new HVAC system at Burriss Hall (project completed)
- \$4.0 million for renovation of the Golf Course (project completed)
- \$1.8 million toward remodeling the Lora Mangum Shields Science Building (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 (completed)
- \$9.0 million to address infrastructure within the University (completed)
- \$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 8<sup>th</sup> 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, student government and 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 dining facilities adequate to serve 300 students (compared to the current capacity of 250 students). The project is designed to meet LEED Gold Certification. Substantial completion is expected in late December 2012.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

Significant delays and other issues were encountered with the project and following several efforts to resolve University concerns, the Board of Regents voted in February 2012, two months after the original completion date, to "terminate for convenience" its contract with Makwa Builders, the general contractor. At the same time, the Board took action to contract for completion of the project by Franken Construction through their contract with the Cooperative Educational Services (CES). Substantial completion is expected in late December 2012, roughly one year after the original completion date. The project will also be over budget, but the University has identified adequate funding to complete the project.

Under the terms of termination for convenience, the payments due to Makwa Builders are limited to work completed, demobilization costs, and reasonable overhead and profit on the work not completed. Makwa's claim for payment is currently in dispute. Under the AIA contract, the process for settlement of disputes is mediation and then arbitration. However, the University has filed a Declaratory Judgment Complaint seeking to void the arbitration provision, which would allow the University to bring suit in San Miguel County court. Subsequent to the University's filing, Makwa Builders filed for Chapter 11 bankruptcy, the impact of which in terms of a settlement between Makwa and the university is unknown at this time. However, University administration does not anticipate any major additional payments to Makwa.

***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, which resulted in the designation of \$6.0M for this project within the 2012 General Obligation Bond which will be on the November ballot for a statewide vote. An additional \$4.5M to complete the project is being requested from the 2013 Legislature. Alternatively, the timing of GO Bonds is such that the additional funding could be included in the 2014 GO Bond and be available when needed to complete the project.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

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 21<sup>st</sup> century educational opportunities.

Media Arts is one of the most successful departments at NMHU, and is part of 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, 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 (NMMNH&S), students working at seventeen cultural institutions around New Mexico, presentations at regional and national conferences, and winning design awards in juried shows. The NMMNH&S remodeled space within the museum during the summer to house NMHU faculty and classes are being offered there effective with the fall of 2012.

The current facility for Media Arts was not designed for this program, is in poor condition, and has never been optimally functional as housing for this academic 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. NMHU anticipates significant growth in this area, once the building is renovated to provide studio and classroom space.

### **Rodgers Hall Renovation**

The Board of Regents included the renovation of Rodgers Hall as the number 3 priority for the 2013 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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

***Infrastructure***

Laws 2008 provided \$9 million in General Obligation Bonds to address infrastructure needs within the New Mexico Highlands University campus (Phase 1). Those funds have now been expended. 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 were 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 2012, the Board of Regents approved and submitted a request for an additional \$14 million (priority number 2) to continue to address infrastructure within the University.

**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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

The Master plan found that Highlands has adequate classroom space for an additional one thousand students. However, the University's residence halls are at 100% of capacity and had a waiting list nearly a month into the fall 2012 semester. This is likely due to an increasing number of out-of-state and international students. The Master Plan 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 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, no timeline for converting National Avenue to a one-way street has been established. Should National become one-way, it is also possible that the directions of flow for National and University may be reversed in conjunction with City of Las Vegas plans.

#### **Factors Impacting Future Periods**

During the period of FY09-FY12, the University experienced a reduction in its state appropriation by approximately 19% or \$6.5 million. The impact of the reduction in I&G funding was 15.8% or approximately \$4.7 million. Athletics was reduced by 21.6% or \$510.2 thousand and Research and Public Service Projects (RPSP) were reduced by 62.1% or \$1.3 million.

Fortunately, as the State's economy improved, I&G funding for FY13 was increased by 6.1%. However, funding for athletics and RPSP's was not increased. State revenue projections for FY13 are running ahead of the estimates utilized by the Legislature to approve FY13 budgets. Projections for FY14 are also showing an increase, so it is anticipated that funding for higher education will see another increase in FY14. The Higher Education Department is also in the process of revamping the funding formula used to allocate funds among the several institutions, placing more emphasis on outcome measures and less on student credit hours at the beginning of a semester. It is anticipated that increased state revenues will result in some increase in FY14 funding from the state.



**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2012**

**State Funding Overview: FY09 vs. 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 %
<b>Total</b>	<b><u>\$ 34,018,000</u></b>	<b><u>\$ 27,553,100</u></b>	<b><u>(\$6,464,900)</u></b>	<b><u>19%</u></b>

During the series of budget cuts, the University successfully made adjustments with three goals: to minimize the impact on the University's core mission, to minimize the impact on faculty and staff, and to maintain as much as possible the University's forward momentum. The University has worked closely with students, faculty and the community in providing information about the decrease in state funding.

Organizational changes and consolidation of administrative positions, not filling a number of faculty and staff vacancies, utility savings, and reallocation of operating budgets based on actuals, and reduction of contingencies allowed NMHU to absorb the reductions, but without any increases in compensation for faculty and staff other than for promotions.

With the 6.1% increase in funding for FY13, faculty salaries were increased by 4% for assistant and associate professors and by 7% for full professors in an effort to bring salaries up to the median of a peer group of institutions. For staff, the Hay Group was contracted to complete a classification study and to evaluate staff salaries by looking at local or national statistics depending on the typical source of candidates for different types of jobs. The effort has taken longer than the Hay Group initially projected, but their report will be the basis for staff salary adjustments for FY13 and perhaps FY14 as well.

**Advancement**

Improved student retention and overall enrollment planning will be a major focus for the university during the 2012-13 year. This will include an evaluation of the timing of financial aid disbursements throughout the semester instead of a total disbursement early in the semester. Some forms of aid will require early disbursement, but others, such as institutional aid and student loans, can be considered for multiple disbursements based on demonstrated class attendance.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

Enrollment for the fall of 2012 reflects an increase at the undergraduate level and a decrease at the graduate level, but overall enrollment numbers are expected to be fairly stable by the end of the semester. The decline in graduate numbers may be due to a large graduating class and a change in federal financial aid policies eliminating subsidized Stafford loans for graduate students. The University will be reviewing its marketing for all sites, programming for students in need of developmental catch-up, and its priorities for an increased pool of scholarship monies.

The last two years have seen a series of accreditation site visits, including the Higher Learning Commission (HLC), NCATE (School of Education), social work, nursing, business, rehabilitation counseling, master's in psychology, and forestry with the maximum possible success in each case. Faculty and student research is growing in both quantity and quality, including several projects at the Wind River Ranch, which was just established as the 560<sup>th</sup> National Wildlife Refuge, the Rio Mora.

Patents involving remediation technology for hydrazine (260,000 tons of this highly toxic substance are produced in the US each year) and several others for numerous stable isotope labeled compounds are attracting more attention and appear to be strong candidates for commercialization. The US Air Force and NASA as well as a number of major corporations are interested in the hydrazine remediation process. NASA has acknowledged that the process is superior to current procedures and has provided \$200,000 to the University for additional testing of the resulting by-products.

Orders for stable isotope labeled compounds are beginning to arrive from various labs around the globe. While not yet a 'flood', the number of requests for quotes and actual orders is beginning to develop and shows promise for the future potential for a spin-off business or licensing of the technology. The University's processes can produce and sell the various compounds at a fraction of the current market costs.

The University is also working more closely with the City of Las Vegas on coordination with their master plan. The University has been participating actively in meetings with educational and community leaders to discuss identification of joint efforts that may be possible in an effort to address major community issues such as economic development. The president and others have and continue to meet with individuals considering new business ventures in Las Vegas.

The University is also expanding its efforts to build more comprehensive alumni and fund-raising programs. Eight alumni/fund-raising meetings are scheduled for the fall in communities in and beyond New Mexico where significant numbers of alumni are located.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**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, 2012 and the results of operations, cash flows, and budget variances for the year for New Mexico Highlands University.

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

New Mexico Highlands University  
Office of University Relations  
PO Box 9000  
Las Vegas, NM 87701  
[www.nmhu.edu](http://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, 2012

	Primary Institution	Component Units	
		Stable Isotopes Corporation	Highlands University Foundation
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 17,630,745	\$ -	\$ 1,158,383
Assets held by others	1,350,217	-	-
Student accounts receivable (net of an allowance of \$3,889,596)	1,139,010	-	-
Grants receivable (net of an allowance of \$411,630)	1,925,297	-	-
Other receivables	1,131,588	-	86,141
Inventories	590,166	-	-
Prepaid assets	53,864	-	3,627
<b>Total current assets</b>	<b>23,820,887</b>		<b>1,248,151</b>
Noncurrent Assets			
Due from component unit	873,505	-	-
Investments	5,510,232	-	4,761,815
Capital assets, net of accumulated depreciation	78,986,697	-	2,751,971
<b>Total noncurrent assets</b>	<b>85,370,434</b>		<b>7,513,786</b>
<b>Total assets</b>	<b>\$ 109,191,321</b>	<b>\$ -</b>	<b>\$ 8,761,937</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 5,210,515	\$ -	\$ 41,989
Accrued compensated absences	865,586	-	-
Deferred revenue	2,963,224	-	-
Bonds payable-current portion	995,000	-	-
Notes payable-current portion	75,000	-	145,332
Accrued Interest Payable	218,172	-	1,205
<b>Total current liabilities</b>	<b>10,327,497</b>		<b>188,526</b>
Noncurrent Liabilities			
Accrued compensated absences	95,813	-	-
Bonds payable long-term portion	30,343,975	-	-
Due to University	-	873,505	-
Assets held for others	-	-	1,350,217
Notes payable-long term portion	525,000	-	870,464
<b>Total noncurrent liabilities</b>	<b>30,964,788</b>	<b>873,505</b>	<b>2,220,681</b>
<b>Total liabilities</b>	<b>41,292,285</b>	<b>873,505</b>	<b>2,409,207</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of debt	47,047,722	-	1,736,175
Restricted for			
Nonexpendable			
Restricted for scholarships and grants	6,741,641	-	1,601,722
Expendable			
Loans	781,161	-	-
Capital projects	9,477,689	-	-
Debt service	2,869,700	-	-
Restricted for scholarships and grants	-	-	3,926,126
Unrestricted (deficit)	981,123	(873,505)	(911,293)
<b>Total net assets</b>	<b>67,899,036</b>	<b>(873,505)</b>	<b>6,352,730</b>
<b>Total net assets and liabilities</b>	<b>\$ 109,191,321</b>	<b>\$ -</b>	<b>\$ 8,761,937</b>

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, 2012

	Component Units		
	Primary Institution	Stable Isotopes Corporation	Highlands University Foundation
<b>Operating revenues</b>			
Tuition and fees	\$ 12,715,329	\$ -	\$ -
Tuition discounts and allowances	(2,245,571)	-	-
	10,469,758	-	-
Federal grants and contracts	10,097,350	-	-
State and local grants and contracts	3,892,364	-	-
Private grants and contracts	1,896,575	-	-
State land, permanent fund and investment income	263,144	-	28,029
Sales and services of auxiliary enterprises	4,977,434	-	-
Contributions	-	-	1,059,018
Other	1,389,606	-	370,883
<b>Total operating revenues</b>	<b>32,986,231</b>	<b>-</b>	<b>1,457,930</b>
<b>Expenses</b>			
Instruction and general			
Instruction	17,166,469	-	-
Academic support	2,673,454	-	-
Student services	3,289,547	-	-
Institutional support	5,473,238	-	-
Operations and maintenance support	4,795,151	-	-
	33,397,859	-	-
Student social/cultural development	901,008	-	-
Research	1,751,497	-	-
Public service	8,306,276	-	-
Student aid grants and stipends	9,160,698	-	169,792
Tuition discounts and allowances	(2,245,571)	-	-
Auxiliary enterprises	4,782,506	-	-
Athletics	2,216,175	-	-
Other expenditures	2,799,700	267,179	1,159,912
Depreciation	6,176,956	-	57,699
<b>Total operating expenses</b>	<b>67,247,104</b>	<b>267,179</b>	<b>1,387,403</b>
<b>Operating (loss) income</b>	<b>(34,260,873)</b>	<b>(267,179)</b>	<b>70,527</b>
<b>Non operating revenues (expenses)</b>			
State appropriations	27,605,870	-	-
Interest and investment income	676,298	-	-
<b>Net non-operating revenues</b>	<b>28,282,168</b>	<b>-</b>	<b>-</b>
<b>Income before other revenues, expenses, gains and losses</b>	<b>(5,978,705)</b>	<b>(267,179)</b>	<b>70,527</b>
<b>Other</b>			
Capital appropriations	2,839,532	-	-
Interest on indebtedness	(1,625,295)	-	-
	1,214,237	-	-
<b>(Decrease) increase in net assets</b>	<b>(4,764,468)</b>	<b>(267,179)</b>	<b>70,527</b>
Net assets (deficit), beginning of year	72,663,504	(606,326)	6,282,203
<b>Net assets (deficit), end of year</b>	<b>\$ 67,899,036</b>	<b>\$ (873,505)</b>	<b>\$ 6,352,730</b>

See Notes to Financial Statements.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2012**

	<u>Primary Institution</u>
<b>Cash Flows From Operating Activities</b>	
Tuition and fees	\$ 10,469,758
Grants and contracts	17,605,219
Sales and services of educational activities	4,977,434
Other operating receipts	2,430,723
Payments to employees for salaries and benefits	(35,242,920)
Payments to suppliers	(26,943,593)
<b>Net cash used by operating activities</b>	<u>(26,703,379)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
State appropriations	27,605,870
Land Grant Permanent Fund	263,144
<b>Net cash provided by noncapital financing activities</b>	<u>27,869,014</u>
<b>Cash Flows From Investment Activities</b>	
Investment Income	676,298
<b>Net cash provided by investment activities</b>	<u>676,298</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
State Appropriations for Capital	2,839,532
Cash paid for capital assets	(6,916,983)
Repayments of bonds payable	(868,671)
Interest payment on bonds	(1,622,768)
<b>Net cash (used) provided by capital and         related financing activities</b>	<u>(6,568,890)</u>
<b>Net decrease in cash and cash equivalents</b>	(4,726,957)
Cash and cash equivalents, beginning of year	<u>22,357,702</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 17,630,745</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (34,260,873)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	6,176,956
Changes in assets and liabilities	
Receivables	2,032,176
Inventories	(97,077)
Other assets	(21,774)
Accounts payable and accrued expenses	57,929
Deferred revenue	(362,412)
Compensated absences	(228,304)
<b>Net cash used by operating activities</b>	<u>\$ (26,703,379)</u>

*See Notes to Financial Statements.*

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**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, 2012**

**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 (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 Isotopes Corporation (HSI)**  
Highlands Stable Isotopes Corporation (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 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. A copy of this separate report can be obtained by request to: New Mexico Highlands University, Office of University Relations, PO 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, 2012

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

**Budget.** Operating budgets are submitted for approval to the Board of Regents, the New Mexico Higher Education Department (HED), and the New Mexico Department of Finance and Administration - State Budget Division (DFA). Similarly, budget requests are submitted to and approved by the Board of Regents, then forwarded to the HED and DFA. These state agencies develop consolidated funding recommendations for all higher education institutions which are considered for appropriation during the annual legislative sessions. The legal level of budgetary control is at the functional level, in accordance with NMAC 5.3.4.10. If total expenditures by are expected to exceed the approved budget, the University is required to submit a Board of Regents approved budget adjustment request to the HED which is subsequently forwarded to the DFA. In accordance with House Bill 2, in general, unexpended state appropriations to the University do not revert at the end of each fiscal year. All state appropriations are accounted for separately in the accounting system.

*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.

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

The Accompanying Schedules of Budget and Actual, for year ended June 30, 2012, (the "schedule") is prepared on the basis of accounting prescribed by the State of New Mexico, Higher Education Department (the Department). The Department requires budgets for combined revenues and expenditures, current unrestricted instruction and general, and current restricted instruction and general 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, 2012**

**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 anticipated losses.

**Deferred Income.** Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May 2012 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2012. 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, 2012

**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 (included in equipment).

*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.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012**

**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 of the University include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; and (3) most federal, state and local grants and contracts and federal appropriations. Operating revenues of the Foundation consists of gifts, grants, and fundraising activities in support of Foundation and University programs.

*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.

**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	New Mexico Highlands Foundation
Cashier's cash	\$ 13,135	\$ 1,158,383
Bank deposits	15,059,870	-
New Mexico Finance Authority – Bank of New York Mellon	2,311,942	-
State Treasurer Local Government Investment Pool	245,798	-
	<u>\$ 17,630,745</u>	<u>\$ 1,158,383</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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, 2012, none of the University's bank balance of \$18,623,722 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, 2012, 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, 2012, the State Treasurer Investment Pool was paying the University .1793 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 rating of the investments is AAAM by Standard & Poor's and the weighted average maturity is 60 days at reset and 83 days at final.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012**

**NOTE 3. GRANTS RECEIVABLE**

As of June 30, 2012, grants receivables consisted of the following:

Federal grants	\$ 373,749
State grants	1,084,864
Private grants	464,487
Other grants	<u>413,827</u>
<b>Total grants receivables</b>	<b>2,336,927</b>
Allowance for uncollectible grant receivable	<u>(411,630)</u>
Grants receivable, net	<b><u>\$ 1,925,297</u></b>

**NOTE 4. OTHER RECEIVABLES**

Other Receivables as of June 30, 2012, consisted of the following:

Perkins loan receivable	766,108
Due from State of New Mexico	301,522
Other	<u>63,958</u>
<b>Other receivables</b>	<b><u>\$ 1,131,588</u></b>

The Due from State of New Mexico consists of amounts due for capital projects as of June 30, 2012.

**NOTE 5. INVENTORIES**

Inventories as of June 30, 2012, consisted of the following:

Facilities services	\$ 348,482
Athletics	208,142
Golf course	<u>33,542</u>
<b>Total inventories</b>	<b><u>\$ 590,166</u></b>

STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

**NOTE 6. INVESTMENTS**

At June 30, 2012, investments of the University and the Foundation are summarized as follows:

	New Mexico Highlands University	New Mexico Highlands Foundation
State Investment Council	\$ 2,573,578	\$ -
State Investment Council (land grant)	2,936,654	-
Cash and Money Market Funds	-	768,289
Preferred stock	-	74,797
Common stocks	-	2,761,648
U.S. obligations	-	397,548
U.S. agency obligations	-	118,190
U.S. corporate bonds	-	641,344
<b>Total investments</b>	<u>\$ 5,510,232</u>	<u>\$ 4,761,816</u>

**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 Interest Rate.** As of June 30, 2012, the Foundation had the following investments subject to interest rate risk:

Investment Type	Fair Value	Weighted Average Maturity (years)
U.S. obligations	\$ 397,548	4.00
U.S. agency obligations	118,190	3.56
U.S. corporate bonds	<u>641,344</u>	3.05
	<u>\$ 1,157,082</u>	
Portfolio weighted average maturity		<u>3.00</u>

The Foundation is not required to follow State Statutes and therefore no collateralization is required. As of June 30, 2012, none of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012**

**NOTE 6. INVESTMENTS (CONTINUED)**

*Foundation Credit Risk.* As of June 30, 2012, the following investments are subject to credit risk:

U.S. Corporate Bonds:

<u>Rating</u>	<u>Fair Value</u>
A...	\$ 544,385
B...	<u>96,959</u>
	<u>\$ 641,344</u>

U.S. Agency Obligations:

<u>Rating</u>	<u>Fair Value</u>
BAA1/BBB	<u>\$ 118,190</u>

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

**NOTE 7. ASSETS HELD BY OTHERS**

As of June 30, 2012, assets held by others consist of Foundation Endowments in the amount of \$1,350,217



STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 8. PROPERTY, PLANT AND EQUIPMENT**

Changes in capital assets and accumulated depreciation by major asset category for the year ended June 30, 2012:

**New Mexico Highlands University**

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 2,793,955	-	-	2,793,955
Artwork	71,650	-	-	71,650
Construction-in-progress	9,916,761	3,107,061	-	13,023,822
<b>Total capital assets not being depreciated</b>	<b>\$12,782,366</b>	<b>3,107,061</b>	<b>-</b>	<b>15,889,427</b>
Other capital assets				
Land improvements	\$26,727,164	1,628,792	-	28,355,956
Buildings	102,664,063	1,394,443	-	104,058,506
Furniture, fixtures and equipment	16,491,990	225,680	8,560	16,709,110
Library materials	8,291,980	329,701	207,668	8,414,013
Patents	73,686	-	-	73,686
<b>Total other capital assets</b>	<b>154,248,883</b>	<b>3,578,616</b>	<b>216,228</b>	<b>157,611,271</b>
Accumulated depreciation				
Land improvements	(7,416,337)	(1,795,451)	-	(9,211,788)
Buildings	(58,760,598)	(3,284,528)	-	(62,045,126)
Furniture, fixtures and equipment	(14,548,477)	(916,021)	-	(15,464,498)
Library materials	(7,623,834)	(180,957)	(12,202)	(7,792,589)
Patents	-	-	-	-
<b>Total accumulated depreciation</b>	<b>(88,349,246)</b>	<b>(6,176,957)</b>	<b>(12,202)</b>	<b>(94,514,001)</b>
<b>Other capital assets, net</b>	<b>\$ 65,899,637</b>	<b>(2,598,341)</b>	<b>204,026</b>	<b>63,097,270</b>
Capital assets summary:				
Capital assets not being depreciated	\$ 12,782,366	3,107,061	-	15,889,427
Other capital assets	154,248,883	3,578,616	216,228	157,611,271
Total cost of capital assets	167,031,249	6,685,677	216,228	173,500,698
Accumulated depreciation	(88,349,246)	(6,176,957)	12,202	(94,514,001)
<b>Capital assets, net</b>	<b>\$ 78,682,003</b>	<b>508,720</b>	<b>204,026</b>	<b>78,986,697</b>

Depreciation expense for the year totaled \$6,176,957.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**New Mexico Highlands University Foundation**

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 794,461	\$ 515,052	\$ -	\$ 1,309,513
Other capital assets				
Buildings	2,250,237	-	-	2,250,237
Accumulated depreciation for				
Buildings	(750,080)	(57,699)	-	(807,779)
	<u>\$ 2,294,618</u>	<u>\$ 457,353</u>	<u>\$ -</u>	<u>\$ 2,751,971</u>
Other capital assets, net				
Capital assets summary				
Capital assets not being				
Depreciated	\$ 794,461	\$ 515,052	\$ -	\$ 1,391,036
Other capital assets, at cost	2,250,237	-	-	2,250,237
<b>Total cost of capital assets</b>	<u>3,044,698</u>	<u>515,052</u>	<u>-</u>	<u>3,641,273</u>
Accumulated depreciation	(750,080)	(57,699)	-	(807,779)
<b>Capital assets, net</b>	<u>\$ 2,294,618</u>	<u>\$ 457,353</u>	<u>\$ -</u>	<u>\$ 2,751,971</u>

Depreciation expense for the year totaled \$57,699.

**NOTE 9. ACCOUNTS PAYABLE/ACCRUED AND OTHER LIABILITIES**

**New Mexico Highlands University**

The \$5,210,515 amount consists of \$2,592,186 of accounts payables and other liabilities, and \$2,618,329 of accrued payroll tax liabilities.

**New Mexico Highlands University Foundation**

The \$41,989 amount consists of accounts payables.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 10. LONG-TERM LIABILITIES**

**New Mexico Highlands University**

Long-term liability activity for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions	Deletion	Balance June 30, 2012	Amount Due Within One Year
A'viands note	\$ -	\$ 600,000	\$ -	\$ 600,000	\$ 75,000
Bonds payable	\$ 32,205,118	\$ 18,335,000	\$ (19,201,143)	\$ 31,338,975	\$ 995,000
Accrued compensated balances	\$ 1,189,703	\$ 961,399	\$ (1,189,703)	\$ 961,399	\$ 865,586

**New Mexico Highlands University Foundation, Inc.**

Long-term liability activity for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions	Deletion	Balance June 30, 2012	Amount Due Within One Year
Notes payable	\$ 906,440	\$ 388,688	\$ (279,332)	\$ 1,015,796	\$ 145,332

**NOTE 11. BONDS PAYABLE AND NOTES PAYABLE**

**New Mexico Highlands University**

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

Systems refunding revenue bonds series 2012, issued May 1, 2012, with interest ranging from .93% to 4.26% - final maturity 2034.	\$ 18,335,000
Systems refunding revenue bonds series 2009A, issued October 15, 2009, with interest ranging from 3.00% to 4.50% - final maturity 2021.	3,845,000
Systems refunding revenue bonds series 2009B, issued October 15, 2009, with interest ranging from 5.32% to 6.07% - final maturity 2035.	<u>9,230,000</u>
Total bonds payable	31,410,000
Amounts due within one year	<u>(995,000)</u>
Long term bonds payable	\$ 30,415,000
Discount on bond	<u>(71,025)</u>
Long term bonds payable, net	<u>\$ 30,343,975</u>

A'viands Food and Services note \$ 600,000

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012**

**NOTE 11. BONDS PAYABLE AND NOTES PAYABLE (CONTINUED)**

**New Mexico Highlands University (Continued)**

During 2012, the University refunded the 2008 Revenue Bonds with the Systems Refunding Revenue Bonds Series 2012. As a result of the refunding present value savings were \$1,365,402.

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	995,000	1,309,039	2,304,039
2014	1,015,000	1,288,427	2,303,427
2015	1,035,000	1,265,782	2,300,782
2016	1,055,000	1,244,638	2,299,638
2017	1,080,000	1,220,792	2,300,792
2018-2022	5,910,000	5,592,725	11,502,725
2023-2027	7,040,000	4,313,153	11,353,153
2028-2032	8,530,000	2,515,809	11,045,809
2033-2035	4,750,000	446,653	5,196,653
<b>Total</b>	<b>\$ 31,410,000</b>	<b>\$ 19,197,017</b>	<b>\$ 50,607,017</b>

A'viands Food and Services note is payable at \$75,000 per year over the next 8 years. The interest rate on the note is 0%.

**New Mexico Highlands University 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>
Due October 21, 2012 with 120 monthly payments of \$17,326 at a 4% fixed interest rate.	
The note is secured with building and land.	\$ 1,015,796
Current portion	<u>(145,332)</u>
Total long-term portion	<u>\$ 870,464</u>

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 145,332
2014	151,337
2015	157,590
2016	163,983
2017	170,877
Thereafter	<u>266,677</u>
	<u>\$ 1,015,796</u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012**

**NOTE 12. DEFERRED REVENUE**

As of June 30, 2012, deferred revenue consisted of the following:

Grants and Contract	\$ 1,521,810
Tuition	1,137,269
Housing/meal Plan	69,972
Other	<u>234,173</u>
<b>Total</b>	<b><u>\$ 2,963,224</u></b>

**NOTE 13. 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 14. EMPLOYEE BENEFITS**

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

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 14. EMPLOYEE BENEFITS (CONTINUED)**

**Retirement Plan.** Employees of the University participate in a defined benefit contributory retirement plan through the Educational Retirement Act (ERA) of the State of New Mexico; certain faculty may opt into an alternate retirement plan invested in tax-sheltered annuities. ERA is a cost sharing multiple employer public employee retirement system. Information pertaining to the actuarially computed present value of vested accumulated plan benefits and non-vested accumulated plan benefits, the plan's net assets available for benefits and the assumed rate of return used in computing the present value, and ten-year historical trend information presenting ERA's progress in accumulating sufficient assets to pay benefits when due is not available as it relates to individual government agencies participating in the plan.

Actuarial pension data for the State of New Mexico, as employer, is provided at the statewide level in a separately issued audit report of the ERA.

**Retirement Eligibility.** The benefit for retirement at age 60, or after 25 years of service before age 60, is an annual sum equal to the "final average salary" multiplied by the total number of years of service credit times 2.35%.

Prior to July 1, 2010:

A member is eligible to retire when:

1. The member's age and earned service credit add up to the sum of 75 or more, or
2. The member is age 65 or more with at least five years of earned service credit, or
3. The member has earned service credit at allowed service credit rates totaling 25 or more years.

Beginning on or after July 1, 2010:

A Member is eligible to retire when:

1. The member's age and earned service credit add up to the sum of 80 or more, or
2. The member is age 67 or more with at least five years of earned service credit, or
3. The member has earned service credit at allowed service credit rates totaling 30 or more years.

A further requirement to be eligible to retire is that one must be a "member" having at least one year of employment after July 1, 1957, and at least five years of contributory employment. The cost of such contributions is 16.25% of the average salary of the last five years for each year of contributory employment needed, plus 3% compounded interest from July 1, 1957, to the date of payment.

When a member has completed five or more years of "earned service credit" and has made contributions for at least five years, the member may terminate employment, leave contributions in the retirement fund and retire (1) when the member's age and years of "earned service credit" (covered employment in New Mexico) add up to the sum of 75 or more, or (2) the member may retire at age 65, if the member has at least five years of "earned service credit." Eligible member who have one year of employment after July 1, 1957, but less than the required five, may receive credit for the additional years by making a contribution to the fund. The amount of the required contribution equals that which would have been made had the employee been covered by ERA for five years, less any amounts already contributed, while earning the average salary for the period of actual employment.

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 14. EMPLOYEE BENEFITS (CONTINUED)**

**Funding Policy.** Effective July 1, 2009, members with annual wages of \$20,000 or less are required to contribute 7.90% of their gross wages and members with annual wages over \$20,000 are required to contribute 11.15%. The University is required to contribute 12.40% of reportable compensation for members with annual wages of \$20,000 or less and 9.15% for members whose annual wages are above \$20,000. Effective July 1, 2011, retirees who are participating in the Return To Work Programs will make non-refundable employee contributions to the NMERB fund and will not earn any additional service credit. The members are required to contribute 11.15% of their gross wages and the University is required to contribute 9.15% of gross wages for members participating in the Return To Work Program. The University is also required to contribute 9.15% of gross wages for PERA Retirees for members with annual wages over \$20,000 and 12.40% of gross wages for members with annual wages of \$20,000 or less. PERA Retirees are excluded from contributing. The contribution requirements of plan members and the University are established in State statute under Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The University's contributions to ERB for the years ending June 30, 2012, June 30, 2011 and June 30, 2010, were \$1,954,478; \$2,484,675 and \$2,594,011, and, respectively, equal to the amount of the required contribution for each fiscal year.

**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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 14. EMPLOYEE BENEFITS (CONTINUED)**

*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](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute .917% of their salary. Employers joining the program after 1/1/98 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 financed 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, 2012, June 30, 2011, and June 30, 2010 were \$433,349, \$411,226, and \$322,471, respectively which equals the required contributions for each year.

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 6.15% to the carrier selected by the employee. The employee contributes 11.15% of his/her gross salary to the carrier they select. Contributions by the University totaled \$90,483 to the ERA for the alternative retirement plan and \$184,853 to the various carriers for the year ended June 30, 2012. Employees contributed \$335,140 to the various carriers under the alternative plan during the year ended June 30, 2012.

**NOTE 15. 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, 2012, was \$136,441 which has been charged to expenditures.



**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012**

**NOTE 16. LEASES**

At June 30, 2012, the University had rent expense for various operating leases that amounted to \$884,238 for the year ended June 30, 2012. The following is a schedule of future minimum lease payments for these leases for the years ending June 30:

2013	\$ 743,166
2014	529,317
2015	458,555
2016	382,740
2017	382,740
2018-2022	1,913,700
2023-2027	1,913,700
2028-2032	1,913,700
2033-2037	1,913,700
2038-2042	1,913,700
	<u>\$ 12,065,018</u>

**NOTE 17. COMMITMENTS AND CONTINGENCIES**

**Commitments.** At June 30, 2012, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying statement of net assets. The commitments are detailed as follows:

Current/Loan Funds	\$ 1,112,544
Plant Fund	\$ 3,749,023
Construction Contract Committed – not encumbered	\$ 3,720,845

**Contingencies.** In February 2012, the University terminated its contract with Makwa Builders LLC ("Makwa") for construction of the Client Student Union Building (the Project), under a provision that entitled the University to terminate the contract for convenience. Under the termination for convenience provision, the University was responsible for compensating Makwa for work completed but not paid for through the date of termination, for reasonable overhead and profit, and for costs related to decommissioning the Project. Makwa submitted a request for payment far in excess of the amount the University believed it owed to Makwa, and, in addition, the University claimed offsets from Makwa on various bases, including for defects in work performed.

The University responded to Makwa's request to payment on August 10, 2012, stating that no money was owed to Makwa. On August 31, 2012, Makwa submitted a Notice of Claim under the contract for payments owed in an amount exceeding \$3 million, and for tort claims related to the University's alleged defamation of Makwa. On September 10, 2012, the University rejected Makwa's claim. On October 3, 2012, Makwa filed for bankruptcy. The University intends to resist Makwa's claim for payment and does not anticipate any major additional payments to Makwa. No amounts have been recorded in the June 30, 2012 financial statements for this potential contingency.

The University is a defendant in other 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, 2012**

**NOTE 18. RECONCILIATION OF BUDGET BASIS TO GAAP**

	<u>Revenues</u>
Budget Basis Revenue	\$ 66,300,664
Scholarship Allowance	(2,245,571)
Loan	(253,853)
Endowment	87,901
Agency	218,790
Revenues per GAAP	<u>\$ 64,107,931</u>
	<u>Expenditures</u>
Budget Basis Expenditures	\$ 71,525,278
Capital Expenditures	(6,265,401)
Depreciation	6,176,956
Scholarship Allowance	(2,245,571)
Endowment Expenditures	244,086
Agency Expenditures	218,790
Other	86,932
Bond Payments	(868,671)
Expenses per GAAP	<u>\$ 68,872,399</u>

**NOTE 19. RESEARCH COMMERCIALIZATION**

The University Board of Regents, in its meeting of May 7, 2009, approved and created “Highlands Stable Isotopes Corporation” (Corporation). The Corporation was granted all of the powers available to it pursuant to paragraph 21-28-6 NMSA 1978 of the University – Research Park and Economic Development Act. The 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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
COMBINED REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 26,656,756	\$ 17,937,056	\$ 17,937,056	\$ -
<b>Unrestricted &amp; Restricted Revenues</b>				
State general fund appropriations	27,433,700	27,605,870	27,605,870	-
Federal revenue sources	12,455,927	12,455,927	10,828,713	(1,627,214)
Tuition and fees	10,355,961	10,637,643	12,451,560	1,813,917
Land and permanent fund	283,873	283,873	263,144	(20,729)
Private grants/contracts	3,105,411	2,333,253	1,680,165	(653,088)
Sales & service	4,778,969	5,927,168	5,152,432	(774,736)
Government grants - state	5,791,998	6,610,412	5,012,980	(1,597,432)
Endowments and private gifts	-	-	-	-
Other	1,787,050	2,055,625	3,305,800	1,250,175
<b>Total revenues</b>	<b>65,992,889</b>	<b>67,909,771</b>	<b>66,300,664</b>	<b>(1,609,107)</b>
<b>Total Unrestricted &amp; Restricted Revenues</b>	<b>92,649,645</b>	<b>85,846,827</b>	<b>84,237,720</b>	<b>(1,609,107)</b>
<b>Unrestricted &amp; Restricted Expenditures</b>				
Instruction and general	35,089,063	34,389,057	33,397,864	(991,193)
Student social and cultural	855,775	894,681	901,008	6,327
Research	2,289,790	2,108,161	1,751,497	(356,664)
Public service	10,163,664	9,662,367	8,306,276	(1,356,091)
Internal service departments	43,358	77,866	93,487	15,621
Student aid	9,083,037	8,891,100	9,038,027	146,927
Auxiliary enterprises	3,494,411	4,274,333	4,563,717	289,384
Intercollegiate athletics	2,169,711	2,170,980	2,216,175	45,195
Capital outlay	11,500,000	5,400,000	6,916,983	1,516,983
Renewal and replacements	1,271,022	1,271,022	1,667,874	396,852
Retirement of indebtedness	2,400,626	2,400,626	2,672,819	272,193
<b>Total Unrestricted &amp; Restricted Expenditures</b>	<b>78,360,457</b>	<b>71,540,193</b>	<b>71,525,728</b>	<b>(14,465)</b>
<b>Net Transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Change in net assets-budgetary basis	(12,367,568)	(3,630,422)	(5,225,064)	(1,594,642)
<b>Ending Fund Balance</b>	<b>\$ 14,289,188</b>	<b>\$ 14,306,634</b>	<b>\$ 12,711,992</b>	<b>\$ (1,594,642)</b>

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, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 570,772	\$ 1,431,611	\$ 988,604	\$ (443,007)
<b>Revenues</b>				
Tuition	9,153,276	9,153,276	9,318,057	164,781
Miscellaneous fees	302,595	353,217	479,894	126,677
Government appropriations-federal	-	-	-	-
Government appropriations-state	24,987,300	24,987,300	24,987,300	-
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	283,873	283,873	263,144	(20,729)
Private gifts	-	-	-	-
Sales & service	2,800	2,800	5,359	2,559
Other sources	1,635,850	1,662,177	1,203,280	(458,897)
<b>Total revenues</b>	<u>36,365,694</u>	<u>36,442,643</u>	<u>36,257,034</u>	<u>(185,609)</u>
<b>Total Unrestricted Revenues</b>	<u>36,936,466</u>	<u>37,874,254</u>	<u>37,245,638</u>	<u>(628,616)</u>
<b>Expenditures</b>				
Instruction	17,648,958	17,624,812	16,862,050	(762,762)
Academic support	2,587,125	2,607,439	2,641,927	34,488
Student services	2,975,886	2,954,805	3,185,855	231,050
Institutional support	5,772,024	5,770,827	5,440,070	(330,757)
Oper. & maint. of plant	4,481,314	4,509,370	4,707,953	198,583
<b>Total expenditures</b>	<u>33,465,307</u>	<u>33,467,253</u>	<u>32,837,854</u>	<u>(629,399)</u>
<b>Net Transfers</b>	2,900,387	2,800,387	3,236,088	435,701
<b>Change in net assets-budgetary basis</b>	<u>-</u>	<u>175,003</u>	<u>183,093</u>	<u>8,090</u>
<b>Ending Fund Balance</b>	<u>\$ 570,772</u>	<u>\$ 1,606,614</u>	<u>\$ 1,171,697</u>	<u>\$ (434,918)</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, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ -	\$ -	\$ -	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	422,209	451,516	391,845	(59,671)
Government grants - state	1,198,679	470,288	166,967	(303,321)
Contracts - local	-	-	-	-
Private grants/contracts	2,868	-	1,199	1,199
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
<b>Total revenues</b>	<b>1,623,756</b>	<b>921,804</b>	<b>560,011</b>	<b>(361,793)</b>
Cash balance budgeted	-	-	-	-
<b>Total revenues and cash balance budgeted</b>	<b>1,623,756</b>	<b>921,804</b>	<b>560,011</b>	<b>(361,793)</b>
<b>Expenditures</b>				
Instruction	332,228	341,731	304,424	(37,307)
Academic support	46,095	41,633	31,528	(10,105)
Student services	102,916	123,119	103,692	(19,427)
Institutional support	33,180	44,683	33,169	(11,514)
Oper. & maint. of plant	1,109,337	370,638	87,198	(283,440)
<b>Total expenditures</b>	<b>1,623,756</b>	<b>921,804</b>	<b>560,011</b>	<b>(361,793)</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL  
 Year Ended June 30, 2012

	Safeguarding Location	Pledged Collateral	Type of Security	Southwest Capital Bank Las Vegas, NM	Wells Fargo Albuquerque NM	Community 1st Bank Las Vegas, NM	State Treasurer Santa Fe, NM	Total
Funds on deposit								
Demand deposits				\$ 1,385,206 \$	2,692,254 \$	11,988,522 \$	245,798 \$	16,311,780
FDIC insurance				(250,000)	(349,692)	(261,522)	-	(861,214)
Total uninsured public funds								
Fifty percent collateral requirement per section 6-10-17 NMSA				\$ 1,135,206 \$	2,342,562 \$	11,727,000 \$	245,798 \$	15,450,566
Pledged collateral				\$ 567,603	1,171,281 \$	5,863,500 \$	N/A \$	7,602,384
	Federal Home Loan Bank of Dallas	213002381	FHLB Bond			1,000,000		1,000,000
	Irrevocable Standby Letters of Credit	213002495	CUSIP #313370KV9 FNMA			5,500,000		5,500,000
	Federal Home Loan Bank		FHLB Bond	1,018,000				1,018,000
			CUSIP #313370KV9 FNMA			750,250		750,250
	Federal Reserve Bank		FN AL					
			CUSIP #3138EHJF0 FNMA ARM		3,123,635			3,123,635
			CUSIP #31416BLS5			167,275		167,275
Deficiency / (Excess) of pledged collateral over the required amount				1,018,000	3,123,635	7,417,525	-	11,559,160
				\$ (450,397) \$	(1,952,354) \$	(1,554,025) \$	N/A \$	(3,956,776)
Funds on Deposit with no collateral requirements (New Mexico Finance Authority) Debt Service Funds				Bank of NY Mellon				
				\$ 2,311,942				

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL (CONTINUED)  
Year Ended June 30, 2012

Page 2 of 4

Name of Bank	Account Type	Balance Per Bank Statement	Reconciled Balance Per Books
<b>Southwest Capital Bank - Las Vegas</b>			
Account payable account (deficit)	Interest bearing checking	\$ 962,057	\$ (38,000)
Payroll account	Interest bearing checking	353,939	327,653
University wire-transfer account	Interest bearing checking	1,921	1,921
Cash receipts account	Interest bearing checking	44,054	51,582
Cashier's credit card account	Interest bearing checking	21,883	26,129
Direct lending account	Interest bearing checking	1,352	1,352
<b>Total</b>		<b>1,385,206</b>	<b>370,637</b>
<b>Wells Fargo Bank - Albuquerque</b>			
Rio Rancho business	Non-interest bearing checking	7,666	8,194
Rio credit card	Non-interest bearing checking	9,082	9,083
NMHU business	Non-interest bearing checking	31,073	31,073
Online payments	Non-interest bearing checking	35,691	42,359
NMHU golf course	Non-interest bearing checking	13,120	13,197
Farmington	Non-interest bearing checking	3,060	3,070
NMHU savings	Savings	2,592,562	2,592,562
<b>Total</b>		<b>2,692,254</b>	<b>2,699,538</b>
<b>Community 1st Bank - Las Vegas</b>			
NMHU golf course	Non-interest bearing checking	11,522	12,695
Capital outlay	Money market account	11,082,688	11,082,688
NMHU savings	Savings	894,312	894,312
<b>Total</b>		<b>11,988,522</b>	<b>11,989,695</b>
<b>Bank of NY Mellon</b>			
NMFA/NMHU	Reserve	1,247,290	1,247,290
	Reserve	362,742	362,742
	Reserve	701,910	701,910
		<b>2,311,942</b>	<b>2,311,942</b>
<b>State Treasurer's Office</b>			
Local government investments	Pooled	28,176	28,176
Local government investments	Pooled	217,622	217,622
		<b>245,798</b>	<b>245,798</b>
<b>Cashier's cash</b>			
		-	13,135
<b>Total cash and cash equivalents</b>		<b>\$ 18,623,722</b>	<b>\$ 17,630,745</b>
<b>University Investments:</b>			
State investment council	Pooled	\$ 2,573,578	\$ 2,573,578
State investment council (land grant)	Pooled	2,936,654	2,936,654
<b>Total investments</b>		<b>\$ 5,510,232</b>	<b>\$ 5,510,232</b>

## NEW MEXICO HIGHLANDS UNIVERSITY

## SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL (CONTINUED)

Year Ended June 30, 2012

## Foundation Investments:

<b>Cash and Money Market Funds</b>	Pooled	Amount	
		\$	768,289

<b>Stocks</b>		Amount	
Common Stocks			2,761,648
Preferred Stocks			74,797
Total Stocks			<u>2,836,445</u>

**US Government Securities**

Name	Maturity Date	Amount	Interest Rate
US Treasury	11/15/2012	49,695	4.00%
US Treasury	5/15/2013	105,023	1.38%
US Treasury	9/30/2013	14,494	3.13%
US Treasury	5/31/2014	84,985	2.25%
US Treasury	4/30/2015	42,341	2.50%
US Treasury	5/15/2017	74,320	4.50%
US Treasury	2/15/2020	4,705	3.63%
US Treasury	11/15/2020	21,983	2.63%
Total Government Securities		<u>397,548</u>	4.00%

**U.S. Agency**

Name	Maturity Date	Amount	Interest Rate
Federal Home loan	7/15/2012	38,070	5.13%
Federal Home loan	7/15/2013	41,764	4.50%
Federal Natl Mtg Assn	10/15/2014	38,356	4.63%
Total U.S. Agency		<u>118,190</u>	3.56%



STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL (CONTINUED)  
 Year Ended June 30, 2012

Foundation Investments (continued):

Corporate Bonds

Name	Maturity Date	Amount	Interest Rate	Rating
IBM Corp	11/29/2012	\$ 25,462	4.75%	AA3/AA-
Eli Lilly & Co	3/6/2012	42,426	4.20%	A2/AA-
Bank of New York Mellon	5/12/2012	21,323	4.30%	AA3/A+
Allstate Corp	5/16/2014	32,999	6.20%	A3/A-
EI Du Pon De Nmeour	1/15/2015	26,592	3.25%	A2/A
JP Morgan Chase & Co.	1/20/2015	20,862	3.70%	A2/A
American Express Credit Corp	6/12/2015	20,227	1.75%	A2/A-
Texas Instruments	5/16/2016	42,062	2.38%	A1/A+
Western Union	10/1/2016	23,204	5.93%	A3/A-
General Electric Capital Corp	1/9/2017	25,823	2.90%	A1/AA+
John Deere Capital Corp	3/15/2017	25,067	1.40%	A2/A
Abbott Laboratories	11/30/2017	18,136	5.60%	A1/AA
Wells Fargo & Co	12/11/2017	29,193	5.63%	A2/A+
United Parcel Serv	1/15/2018	12,014	5.50%	AA3/AA-
Sysco Corp	2/12/2018	17,904	5.25%	A1/A+
Procter & Gamble	2/15/2019	21,351	4.70%	AA3/AA-
Coca Cola	3/15/2019	47,502	4.88%	AA3/A+
Caterpillar Inc	5/27/2021	27,839	3.90%	A2/A
Amgen Inc	2/1/2013	12,480	0.38%	BAA1/A+
Medtronic Inc	4/15/2013	10,025	1.63%	A1/A+
Gilead Sciences Inc	5/1/2013	10,920	0.63%	BAA1/A-
Textron Inc.	5/1/2013	3,845	4.50%	BAA3/BBB-
NetApp Inc	6/1/2013	5,713	1.75%	BBB
Symantec Corp	6/15/2013	6,143	1.00%	BBB
Molson Coors Brewing Co	7/30/2013	4,045	2.50%	BBB-
Tyson Foods	10/15/2013	4,850	3.25%	BB+
EMC Corp Global	12/1/2013	13,020	1.75%	A
Archer Daniels	2/15/2014	5,025	0.88%	A
Alcoa Inc	3/15/2014	5,985	5.25%	BAA3/BBB-
Allegheny Technologies	6/1/2014	4,625	4.25%	BBB-
CB Prologis	3/15/2015	4,395	3.25%	BBB-
Ford Motor Co	11/15/2016	2,780	3.25%	BAA3/BB+
XILINX Inc	6/15/2017	3,848	2.63%	BBB+
Newmont Mining	7/15/2017	7,958	1.63%	BBB+
LAM Research Corp	5/15/2017	4,931	1.25%	BBB-
Danaher Corp	1/22/2021	12,110	0.00%	A2/A+
Teva Pharmaceutical	2/1/2026	8,340	0.25%	A3/A-
Nuance Communications	8/15/2027	4,136	2.75%	BB-
Jeffries Group	8/15/2027	6,326	3.88%	BAA2BBB
Intel Corp	12/15/1935	11,311	2.95%	A-
Boston PPTUS LTD	5/15/1936	4,570	3.75%	A-
Transocean	12/15/1937	3,980	1.50%	BAA3/BBB-
Total Corporate Bonds		<u>641,343</u>		
Total Foundation Investments		<u>\$ 4,761,815</u>		

STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF JOINT POWERS AGREEMENTS AND  
 MEMORANDUMS OF UNDERSTANDING  
 Year Ended June 30, 2012

Type of Agreement	List of all Institutions	Responsible Organization/Party	Expiration Date	Effective Date	Total Estimated \$ of project	Portion \$ available to NMHU	Amount Contributed (E.L.F.)	Amount Contributed (E.L.F.)	Audit Responsibility	Fiscal Agent	Name of Oversight Agency	Purpose
MOU	NMHU & Department of Cultural Affairs	NMHU	8/17/2010	6/30/2013	\$ 62,600	\$ 62,600	\$ 45,483	NMHU	Department of Cultural Affairs	Stuart Aebman	Department of Cultural Affairs	To promote training of students for careers in museums, libraries, and other cultural institutions and professional settings.
MOU	NMHU & Department of Cultural Affairs	NMHU	8/11/2009	6/30/2012	68,000	68,000	1,068	NMHU	Department of Cultural Affairs	Dorelle 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 & Department of Cultural Affairs	NMHU	7/1/2011	6/30/2014	50,000	50,000	4,917	NMHU	Department of Cultural Affairs	Doug Pinaika	Department of Cultural Affairs	To provide internship opportunities for Media Arts majors and recent graduates.
MOU	NMHU & LUNA Community College	NMHU	3/24/2011	-	-	-	-	NMHU	LUNA Community College	Vidal Martinez	LUNA Community College	Students completing the Associate of Applied Science Degree in Sports Performance and LUNA can apply these credits and coursework toward a Bachelor of Arts in Human Performance and Sport with a concentration in Exercise Science or Bachelor of Arts in Health with a concentration in Health Promotion and Wellness at NMHU.
MOU	NMHU & NMJC	NMHU	-	-	2,800	2,800	2,800	NMHU	New Mexico Junior College (NMJC)	Steve McClerry	New Mexico Junior College (NMJC)	To provide a distance delivery/video conferencing classroom for NMHU School of Social Work students for distance education.
MOU	NMHU & LVS/MCOEM	NMHU	10/28/2009	-	-	-	-	NMHU	Las Vegas/San Miguel County Office Emergency Management	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	Region IV Narcotics Task Force	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	126,645	126,645	42,286	NMHU	TRIBES	Norman Cooyrate	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 prices for both undergraduates and graduates; a total of 69 scholarships are awarded per academic year (fall and spring only); total scholarship awarded were 19.
MOU	NMHU & SFCC	NMHU	8/24/2008	ongoing	-	-	-	NMHU	Santa Fe Community College	Sheila Ortega	Santa Fe Community College	To articulate twelve hours from the NMHU TESOL License Program into the recently developed SFCC TESOL Endorsement Program.
MOU	NMHU & SIC	NMHU	2/7/2000	ongoing	-	-	-	NMHU	San Juan College	Carol J. Spencer	San Juan College	To establish a unique educational partnership. It initiates the development of integrative, 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 materials.
MOU	NMHU & City of Las Vegas	NMHU	6/1/2012	ongoing	-	-	-	NMHU	City of Las Vegas	Cassandra Frequez	City of Las Vegas	The City of Las Vegas will provide temporary employment opportunities each summer to individuals from within the community that would work with other institutions within the community whom will conduct pre-employment screening, interviews, background checks, select hires, and will be responsible for compensating all employees. NMHU will provide training, supervision, a work schedule to complete between 20 to 40 hours per week, and work in conjunction with the city to present educational seminars to summer employees to better prepare them for the workforce.

Note: The University does not have any joint powers agreements in effect during the year ending June 30, 2012.

STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2012

<u>Federal Grantor/Program Title</u>	<u>CFDA#</u>	<u>Sub Award #</u>	<u>Expenditures</u>
Research and Development Cluster			
National Institute of Health			
NIH/Polymorphs	93.855		\$ 39,564
<b>Total National Institute of Health</b>			
National Science Foundation			
NSF- Stem Stars	47.076		44,666
Collaborative Research of Central High Plains	47.050		75,534
<b>Total National Science Foundation</b>			<u>120,200</u>
Passed through University of Central Florida			
SOAP	47.049	CHE-0832622	22,262
Passed through University of New Mexico			
EPSCOR/UNM	47.080	063013-8744	149,814
EPSCOR Infrastructure Seed Program	47.080	063013-8744/SUB	38,785
Passed through New Mexico State University			
INBRE/NMSU/Sammeth	93.389	Q01348	14,877
INBRE/NMSU/Linder	93.389	Q01348	78,494
INBRE/NMSU/Plunkett	93.389	Q01348	65,967
INBRE/NMSU/Sammeth 3/12-2/13	93.389	Q01348	8,874
INBRE/NMSU/Linder 3/12-2/13	93.389	Q01348	42,471
INBRE/NMSU/Plunkett 3/12-2/13	93.389	Q01348	35,298
NMSU-CSREES 1/09-8/11	10.217	Q01313	11,825
Passed through University of Washington			
NSF/UW-Structural Study	47.049	450063	38,586
Passed through Arizona State University			
WAESO Fall 2010	47.076	KMS0019-7-51/SUB	935
WAESO Spring 2011	47.076	KMS0019-7-52/SUB	3,008
WAESO FALL 2011	47.076	KMS0019-7-53/SUB	16,081
<b>Total Research and Development Cluster</b>			<u>687,041</u>
US Department of Education			
Student Financial Aid Cluster			
Fed W/S - Instruction	84.033		89,021
Fed W/S - Academic Support	84.033		23,154
Fed W/S Student Services	84.033		77,467
Fed W/S - Institutional Support	84.033		6,316
Fed W/S - Operation & Maint.	84.033		22,810
Fed W/S - Social & Cultural	84.033		34,427
Fed W/S - Public Service	84.033		21,357
Fed W/S - Internal Service	84.033		11,060
Fed W/S - Auxiliaries	84.033		66,174
Fed W/S - Athletics	84.033		1,756
Federal PELL	84.063		5,709,131
Federal SEOG	84.007		186,140
TEACH	84.379		87,900
<b>Total Student Financial Aid Cluster - US Department Of Education</b>			<u>6,336,713</u>
TRIO Cluster			
Upward Bound	84.047A		318,373
Student Support Services	84.042A		547,672
<b>Total TRIO Cluster - US Department of Education</b>			<u>866,045</u>

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2012

Federal Grantor/Program Title	CFDA#	Sub Award #	Expenditures
US Department of Education			
CCRAA/HSI 10/08-9/10	84.031C		258,685
PASS 10/11-9/16	84.031C		156,333
Rehab Counseling 10/09-9/14	84.129B		173,076
Rehab Counseling 8/08-7/13	84.129F		105,641
Nat'l Prof Dev Pgrm/CESDP 7/07-7/12	84.195N		258,969
CESDP/Gear up 9/05-8/11	84.334A		228,744
GEAR-UP 8/07-8/13	84.334A		998,305
Nat'l Prof Dev Pgrm/CESDP 5/12-4/17	84.365Z		21,990
Passed through Public Education Department			
NMSDE-AP fee pmt prog 3/11-1/12	84.330B	1192400022	121,282
Passed through Northern New Mexico Community College			
EOS/NNM/Title V 10/06-9/07	84.031S	Sub # 411544201122	52,873
<b>Total US Department of Education</b>			<u>2,375,898</u>
US Department of Energy			
Passed through NM Energy Minerals and Natural Resources			
NMHU Building Retrofit & Recycling Program (ARRA)	81.041	10-521-R1DOE00001-0268	59,693
US Department of Education			
Passed through NM Higher Education Department			
NMHU-CESDP/GSF/(ARRA)	84.397A	GSF-HED-02CESDP	70,394
Department of Human Services			
SAMHSA/HU Campus Suicide 9/09-9/12	93.143		111,362
Passed Through NM Department of Children Youth and Families and Families			
CYFD SW 07/10-06/11	93.658	11-690-12099	1,696,200
Passed Through State of New Mexico			
Human Services Department			
State Prevention Enhancement Prog	93.243	GSA 12-630-7903-0045	7,560
<b>Total US Department of Human Services</b>			<u>1,815,122</u>
Corporation for National and Community Service - AmeriCorps			
Passed Through NM Department of Children Youth and Families			
AmeriCorps Cultural Tech Program	94.006	11-690-12352	62,943
AmeriCorps Cultural Tech Prgm FY 12	94.006	12-690-13802	103,762
<b>Total Corporation for National and Community Service - AmeriCorps</b>			<u>166,705</u>
United States Department of Agriculture			
USDA/SASE II	10.223		99,170
USDA\Student Paths 9/11-8/12	10.223		19,587
USDA/NM FWRI 01/09	10.694		181,165
Passed through Cooperative State Research, Education and Extension Service			
USDA/FRRRE 08/09-07/11	10.223	2009-38422-19868	112,949
<b>Total US Department of Agriculture</b>			<u>412,871</u>
Passed Through US Department of Interior			
Bureau of Land Management			
NM Forest & Woodlands 7/11-9/16	15.233	L11AC20181	129,559
Passed Through US Department of Interior			
Geological Survey			
NMSU/America View	15.815	Q01519/SUB	3,416
<b>Total US Department of Interior</b>			<u>132,975</u>
<b>Total Federal Awards expended</b>			<u>\$ 12,923,457</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
June 30, 2012**

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

The federal financial assistance of the University is included in the scope of the Single Audit, which was performed in accordance with the provisions of the Office of Management and Budget's Circular A-133, *Compliance Supplement for Audits of Institutions of Higher Learning and Other Not-for-Profit Institutions* (Compliance Supplement). Compliance testing of all specific requirements was performed, as described in the Compliance Supplement (June 2012).

**NOTE 2. 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 2012 or accrued revenue at June 30, 2012. 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 3. 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 4. STUDENT FINANCIAL ASSISTANCE**

The University administers the Perkins Loan Program. Total outstanding loans under this US Department of Education program at June 30, 2012, were \$943,886. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2012, were \$64,183. The Schedule of Expenditures of Federal Awards only includes an amount, which represents administrative costs and additional advances for the year ended June 30, 2012.

During the fiscal year ended June 30, 2012, the University processed \$12,928,240 in Federal Direct Loans.

**NOTE 5. 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**

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

We have audited the basic financial statements of New Mexico Highlands University (University) and its discretely presented component units and the budget comparison presented as supplementary information as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012. 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 control over financial reporting. In planning and performing our audit, we 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 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 a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 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.

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 basic 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 or other matters 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 and 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. We did not audit the University's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Regents, management of the University, the New Mexico Higher Education Department, the New Mexico State Auditor, and 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 14, 2012

**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**

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

**Compliance**

We have audited the New Mexico Highland University's (the University) compliance 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, 2012. 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, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.



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

### **Internal Control Over Compliance**

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 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.

This report is intended solely for the information and use of the Board of Regents, management of the University, the New Mexico Higher Education Department, the New Mexico State Auditor, and 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 14, 2012

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SUMMARY OF PRIOR YEAR AUDIT FINDINGS  
 For the Year Ended June 30, 2012**

<b>Prior Year Finding Description</b>	<b>Status</b>
03-17 Budget Overspending	Repeated and Revised
11-01 No Documentation of Approved Application	Resolved
11-02 Incorrect Reporting	Resolved
11-03 Student Financial Aid – Return to Title IV	Resolved
11-04 Notification of Property Disposition	Repeated and Revised

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2012**

**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 Assistance Cluster
84.042A/84.047A	TRIO Cluster
84.334A	Gear-UP

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, 2012**

**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, 2012**

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

None

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
 Year Ended June 30, 2012**

**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:

Student Social and Cultural	\$	6,327
Internal Service Departments	\$	15,621
Student Aid	\$	146,927
Auxiliary Enterprises	\$	289,384
Intercollegiate Athletics	\$	45,195
Capital Outlay	\$	1,516,983
Renewal and Replacement	\$	396,852
Retirement of Indebtedness	\$	272,193

**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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2012**

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

**03-17 - Budget Overspending (Continued)**

**Management response**

We continue our efforts to ensure that budget categories are not overspent. We have identified three areas which are causing this to occur:

- First, the final budget must be submitted to the Higher Education Department by May 1<sup>st</sup>. Since the budget must be approved by the Board of Regents in advance, we are finalizing our budget well over two months before the close of the year. We are improving our tracking so that we can better predict the year-end. We are now sweeping salary savings on a regular basis so that it can be transferred to cover unexpected expenses. We will tighten year-end cut-off deadlines to avoid last minute spending.
- The second issue has been the various entries that are made after the year has ended, when there is no longer an opportunity to make budgetary transfers. We will request that a variety of items, such as financial aid transactions and bad debt expenses, be calculated well in advance of the year end in order to improve our projections.
- Finally, we have identified departments that do not submit financial transactions on a timely basis, or submit them after-the-fact, and have instituted measures to ensure that that all transactions are submitted in a timely manner.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2012**

**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 library capital 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 \$207,668.

**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.

The agency shall submit 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 without 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, 2012**

**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, 2012**

An exit conference was held on November 5, 2012. Attending were the following:

**Representing New Mexico Highlands University:**

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

**Representing New Mexico Highlands University Foundation:**

Darlene Chavez, Business Manager of Foundation

**Representing New Mexico Highlands University Stable Isotope Corporation:**

Dr. James Fries, President

**Representing Moss Adams LLP:**

Scott Eliason, CPA, Partner

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