



Financial Audit for Fiscal Year 2014



NEW MEXICO
HIGHLANDS
UNIVERSITY®

From the President



Founded in 1893, New Mexico Highlands University is a multicultural university at which Hispanic, Native American, and African American students comprise some 73% of the enrollment. Forty per cent of our students are studying at the master's level 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. However, our students come from across the State, the country, and the world with 19 tribes, 42 states and 36 countries represented.

As you will see in this report, Highlands is fiscally sound and has seen some recovery of state funding since the reductions during the recent recessionary period. Like many institutions across the country, Highlands did experience a modest enrollment decline in its fall 2014 enrollment and related tuition revenue. However, summer revenues were up significantly and the possibility of a shortfall in tuition revenues was also built into the budget for FY15 such that tuition revenue for the year should be approximately on budget. For the fall of 2015, several steps will be implemented to improve the recruitment, admissions, and enrollment processes.

Highlands has invested approximately \$90M in major capital improvements in recent years, including a 276 bed suite-style LEED Silver certified residence hall, a new Student Center, and major remodeling of the Lora Shields Science Building, Felix Martinez Building, and the Natatorium, all of which have been LEED Gold certified. The campus has become quite green, which includes water catchment systems with a 305,000 gallon capacity and a ground source HVAC system in the new Student Center.

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. 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.

The University owns several patents with commercial applications that are expected to generate a significant new revenue source. A process for remediation of hydrazine spills or contamination has recently been approved for use by the US Air Force and has been used successfully by a growing number of nuclear power plants. Highlands has also just received a grant from NASA to verify the applicability of the process for neutralization of other hydrazine-related compounds. Various products are actively being marketed under the trademarked name ZeenKleen by a major spill containment company headquartered in Atlanta, Georgia.

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.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO

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NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
June 30, 2014

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, 2018
Jesus L. Lopez	Vice – Chairman	December 31, 2014
Nancy R. Long	Member	December 31, 2013
Frank Marchi	Member	December 31, 2016
Michael Martinez	Student Member	December 31, 2014

Principal Administrative Officials

Dr. James Fries	President
Dr. Gilbert Rivera	Vice President for Academic Affairs
Dr. Fidel Trujillo	Dean of Students
C. Max Baca	Interim Vice President for Finance & Administration

Principal Financial Officials

Jesus E. Baquera	Controller
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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of New Mexico Highlands University (the "University") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedule presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statement for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the University as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, and the budgetary comparisons as of and for the year ended June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 18 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. 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 basic financial statements.

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

The Schedule of Individual Deposit Accounts and Pledged Collateral and Schedule of Joint Powers Agreements and Memorandums of Understanding and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Individual Deposit Accounts and Pledged Collateral, Schedule of Joint Powers Agreements and Memorandums of Understanding, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014 on our consideration of the 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* in considering the University's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
November 3, 2014

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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, 2014. University management has prepared the financial statements and the related note disclosures in addition to the discussion and analysis. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

The University has one supporting Foundation, **New Mexico Highlands University Foundation, Inc.**, a not-for-profit organization. The financial information of the Foundation is presented in the financial statements as a “discretely presented component unit”.

The University has one wholly owned research corporation, **Highlands Stable 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 unmodified 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 Position presents the assets, liabilities, and net position of the University at a point in time (June 30, 2014). 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 Position 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, 2014). 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;

**NEW MEXICO HIGHLANDS UNIVERSITY
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Statement of Revenues, Expenses, and Changes in Net Position (continued)

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 Position. 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, 2014). 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)).

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Highlights

During the fiscal year ended June 30, 2014, the University's net position decreased by 1% from \$68.7 million to \$67.4 million and cash and cash equivalents increased by 1%, from \$6.9 million to \$7.8 million, due primarily to construction of a new student center.

CONDENSED STATEMENT OF NET POSITION

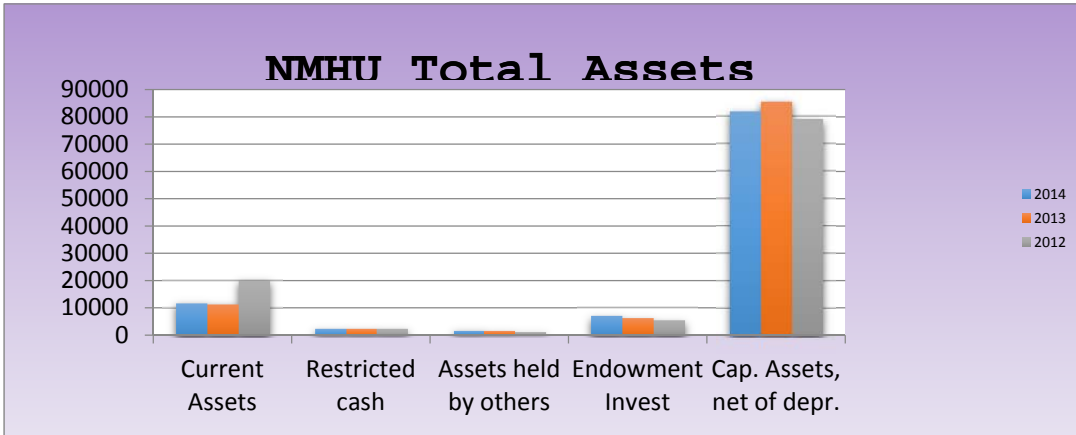
Net Position as of June 30, 2014 and 2013 (thousands)		
	<u>2014</u>	<u>2013</u>
Assets:		
Current assets	\$11,979	\$11,560
Restricted cash	2,316	2,312
Assets held by others	1,783	1,521
Due from component unit	1,169	1,031
Endowment investments	7,210	6,199
Capital assets, net of accum. depr.	<u>82,801</u>	<u>85,518</u>
Total assets	<u>107,259</u>	<u>108,141</u>
Liabilities:		
Current liabilities	10,545	9,473
Non-current liabilities	<u>28,807</u>	<u>30,003</u>
Total liabilities	<u>39,352</u>	<u>39,476</u>
Net Position:		
Invested in capital assets, net of debt	53,020	54,572
Restricted for nonexpendable	8,851	7,592
Restricted for expendable	5,061	5,706
Unrestricted	<u>975</u>	<u>796</u>
Total net position	<u>\$67,907</u>	<u>\$68,666</u>

Discussion of Statement of Net Position

Current assets increased 1% during the year. The ending balance of \$11.9 million consists primarily of cash/cash equivalents (\$7.8 million), receivables (\$3.7 million) and other (\$491 thousand). 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.

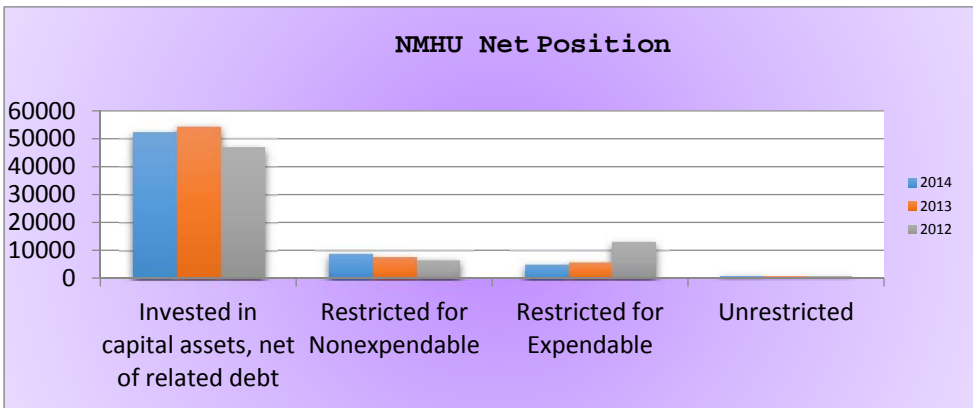
**NEW MEXICO HIGHLANDS UNIVERSITY
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The total cost of **Capital assets** is comprised of land, buildings and improvements, library books, equipment, vehicles, furniture and patents of \$180 million less accumulated depreciation of \$97 million. All capital assets, except land and construction-in-progress, are being **depreciated**, meaning a percentage of the assets’ cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$83 million (\$180 million cost less \$97 million accumulated depreciation).



Total liabilities of \$39.4 million constitute 37% of total assets and consist primarily of payables/accrued liabilities and accrued compensated absences (\$5.6 million), bonds/notes payable (\$29.8 million), accrued interest payable of (\$213 thousand) and unearned revenue (\$3.8 million). Unearned revenue represents amounts prepaid by students, auxiliary enterprises customers, grantors and contractors (or amounts received before the University met all of its requirements for income recognition). These amounts will be recognized as revenue in future period after all conditions have been satisfied.

Total net position decreased by \$.8 million or 1%, 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 (\$53 million). Restricted for nonexpendable (\$8.9 million) represents the University’s endowment corpus, whereas restricted for expendable (\$5.1 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$975 thousand) are available to the University for any lawful purpose under the full discretion of management.



**NEW MEXICO HIGHLANDS UNIVERSITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

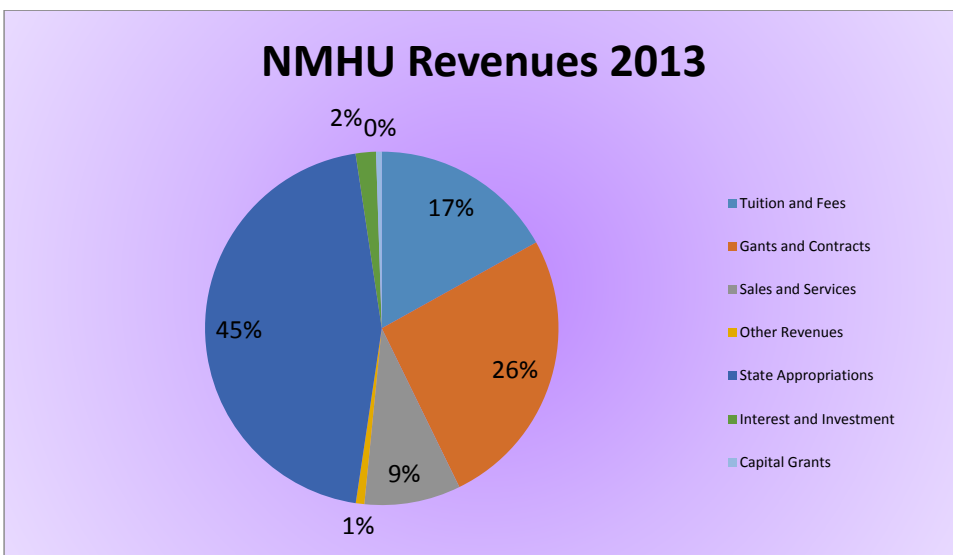
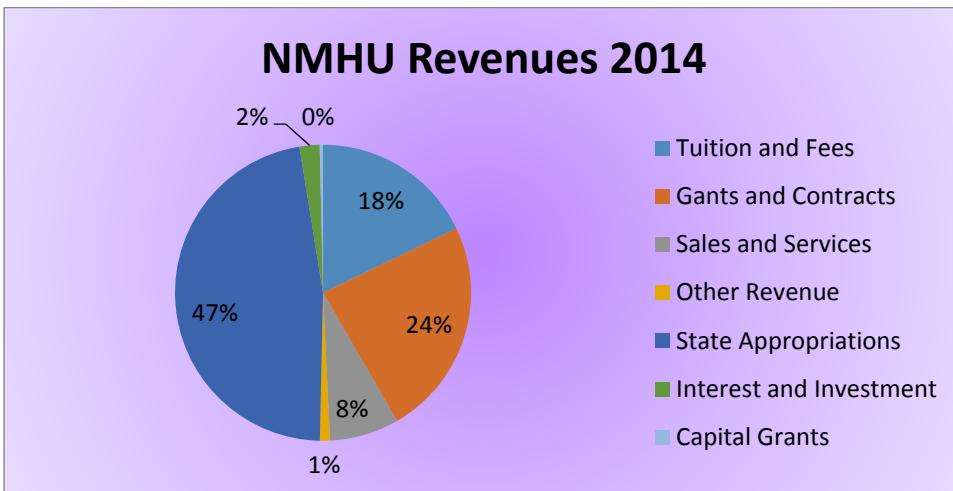
Activities for the years ended June 30, 2014 and 2013 (thousands)		
	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Tuition and fees, net	\$11,412	\$ 10,915
Grants & contracts	15,239	16,685
Sales and services / other revenue	<u>5,752</u>	<u>6,388</u>
Total operating revenues	<u>32,403</u>	<u>33,988</u>
Operating expenses:		
Instruction and general	36,855	35,353
Other operating expenses	22,840	24,228
Depreciation	<u>3,411</u>	<u>3,669</u>
Total operating expenses	<u>63,106</u>	<u>63,250</u>
Operating loss	<u>(30,703)</u>	<u>(29,262)</u>
Non-operating revenue:		
State general fund appropriations	30,124	29,218
Interest and investment income	1,402	1,201
Capital appropriations	<u>230</u>	<u>330</u>
Total Non-operating revenue:	<u>31,756</u>	<u>30,749</u>
Income/(loss) before other revenue, expenses, gains, losses	<u>1,053</u>	<u>1,487</u>
Interest on indebtedness	-	(1,289)
Other	<u>1,811</u>	<u>569</u>
Total Other	<u>1,811</u>	(720)
Decrease/Increase in net position	<u>(758)</u>	<u>767</u>
Net position, beginning	<u>68,666</u>	<u>67,899</u>
Net position, ending	<u>\$67,907</u>	<u>\$68,666</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
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MANAGEMENT’S DISCUSSION AND ANALYSIS**

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

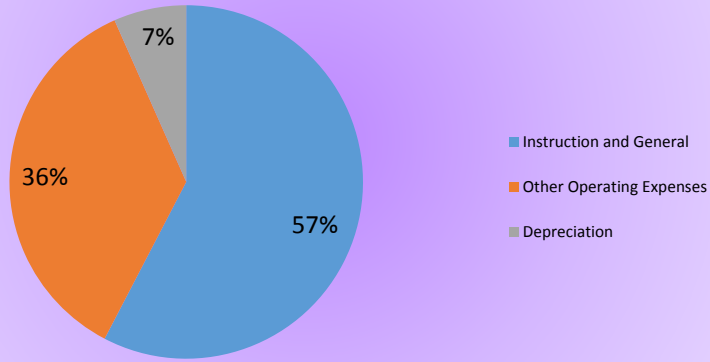
This statement shows the components that increased, in the aggregate. The University’s net position decreased by \$758 thousand during the year. Operating expenses (\$63.1 million) are subtracted from operating revenues (\$32.4 million), resulting in an “operating loss” (\$30.7 million). State general fund appropriations (\$30.1 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 (\$1 million). Added to this income is \$1.8 million of other income offset by \$230 thousand in capital appropriations revenues (federal and state funds designated for construction projects).

State general fund appropriations increased by \$905 thousand (3%). The state appropriation for general funds for year ended June 30, 2014 was \$30.1 million as compared to state appropriation for year ended June 30, 2013 at \$29.2 million.

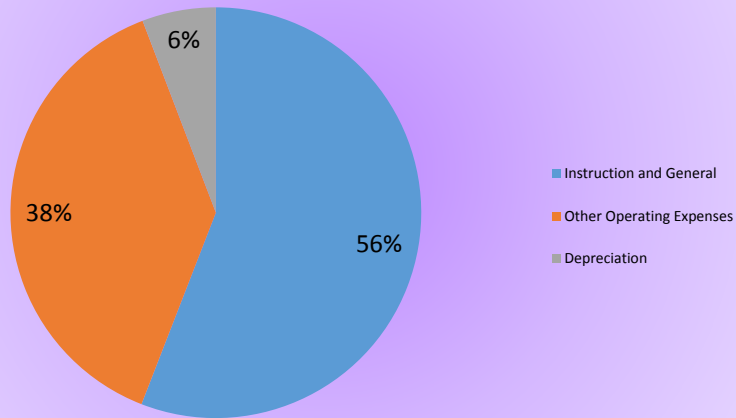


**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

NMHU Operating Expenses 2014



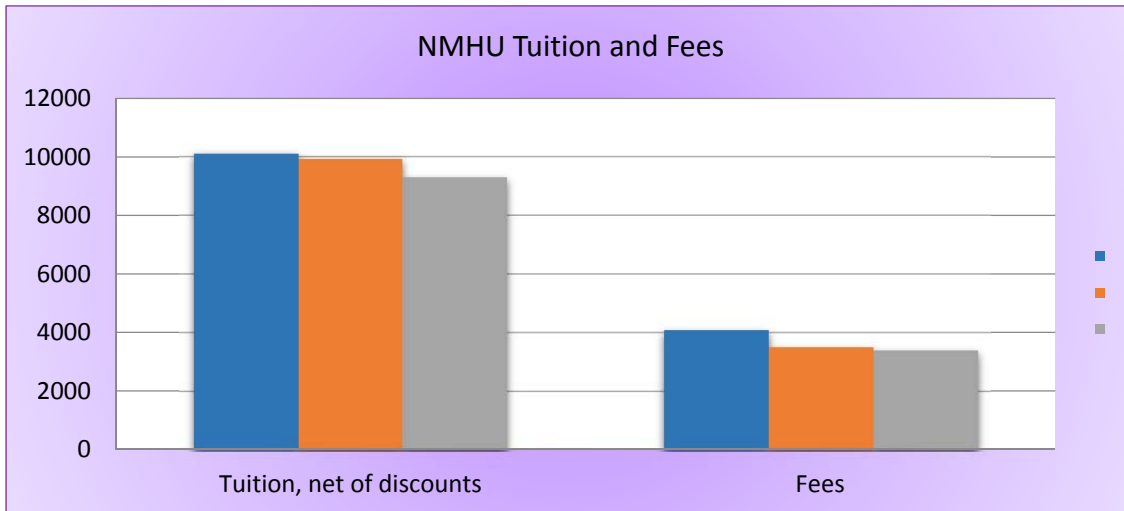
NMHU Operating Expenses 2013



**NEW MEXICO HIGHLANDS UNIVERSITY
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MANAGEMENT’S DISCUSSION AND ANALYSIS**

Analysis of Tuition and Fees Revenue (thousands)				
	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	
Tuition	\$10,129	\$9,947	182	1.8%
Fees	<u>4,092</u>	<u>3,525</u>	<u>567</u>	16.1%
Subtotal	14,221	13,472	749	5.5%
Tuition discounts/allowance	<u>(2,809)</u>	<u>(2,558)</u>	<u>(251)</u>	9.8%
Net	<u>\$ 11,412</u>	<u>\$10,914</u>	<u>498</u>	4.5 %

Tuition and fees, net of discounts and allowances, increased by 4.5%; however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees, they increased by \$749 thousand, or 5.5%.



**NEW MEXICO HIGHLANDS UNIVERSITY
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MANAGEMENT’S DISCUSSION AND ANALYSIS**

CONDENSED STATEMENT OF CASH FLOWS

Statement of Cash Flows for the years ended June 30, 2014 and 2013 (thousands)		
	2014	2013
Cash flows from operating activities:		
Net cash used by operating activities	\$(30,189)	\$(26,436)
Net cash provided by noncapital financing activities	30,322	29,413
Net cash flow provided by investment activities	1,402	1,540
Net cash used by capital & related financial activity	<u>(588)</u>	<u>(15,290)</u>
Net increase in cash and cash equivalents	948	(10,772)
Cash and cash equivalents, beginning of year	<u>6,859</u>	<u>17,631</u>
Cash and cash equivalents, end of year	<u>\$ 7,806</u>	<u>\$ 6,859</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 \$948 thousand net increase during the year, resulting in an ending cash balance of \$7.8 million.

Discussion of Budget Comparisons

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

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

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Discussion of Significant Capital Projects

Highlands University continues to invest heavily in improvements to its campus, including the development of the University Master Plan, and effort that began in 2009. In the summer of 2010 the Master Plan was completed and approved by the NMHU Board of Regents. Capital projects completed and planned range from the construction of large scale buildings, such as our new residence hall and our new student center currently in construction, to small enhancements upgrading the look and feel of the campus, such as improved signage and lighting. Together, these projects have helped revitalize the campus, allowing us to better meet the needs of the Highlands’ community.

Trolley Building Renovation

During the 2012 legislative session, the University’s Board of Regents and Administration made the renovation of the “Trolley Building” their top capital priority and Laws 2012 provided \$6,000,000 to be included in the 2012 General Obligation Bonds to be presented in the November 2012 general election for voter approval, which passed. In the summer of 2012, the Board of Regents reaffirmed the Trolley Building as its top priority and directed staff to move forward to secure additional funding during the 2013 legislative session. An additional, \$2.3 million in severance tax bonds was approved bringing the available balance to \$8.3 million.

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 is pleased to support New Mexico Highlands University’s efforts to repair and reuse this structure. The idea of using a historic building to house a cutting-edge technology program is one way that Highlands honors its history and culture while at the same time immersing its students in 21st century educational opportunities.

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

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However, the facilities currently used by Media Arts are in poor condition and have never been optimally functional as academic housing for this program. Classroom and studio space is inadequate and the program is desperately short of office space for new faculty. The current facility does not support the technological character of the program adequately. Additionally, program expansion is impossible due to space constraints. NMHU anticipates significant growth in this area, once the building is renovated to provide adequate studio and classroom space. The project is nearing its construction documents phase which should be completed in January 2015 with construction to be completed by May 2016. The Trolley building will be designed to meet LEED Silver certification.

Campus Master Plan

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

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

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

The plan also addresses the issue of the University's main campus as a pedestrian space with easy and safe access between heavily used areas. The necessary contrast to a pedestrian space, of course, is that adequate and convenient parking must be a part of the finalized plan.

**NEW MEXICO HIGHLANDS UNIVERSITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

Factors Impacting Future Periods

During the period from FY09-FY12, State funding for the University was reduced by 19% or \$6.5M, including reductions for 21.6% for athletics and 62.1% for Research and Public Service Projects. However, FY13 saw a 6% increase in State funding as the national and State economies improved. A more modest increase, including 1% for compensation, was provided for FY14. Current revenue projections and meetings with key State officials suggest that State funding will continue to recover and should increase again for FY16. The Funding Formula has also been undergoing significant change to more of an outcomes focus. Additional changes are anticipated for FY16, but are not expected to interfere with an increase in appropriations.

Organizational changes and the planned retirement of the Vice President for Academic Affairs and the Executive Director for Development, are moving forward. The Development position will be raised to the Vice President level and will incorporate responsibility for University Relations as well as a much more organized fund and friend raising effort. Both the University and the Foundation are positioned to support an expanded effort to secure external donations. Other organizational changes are designed to create a stronger Enrollment Management structure with a goal of improving student success and improved retention and graduation rates.

The University holds several patents for compounds labeled with stable isotopes of carbon and hydrogen as well as other patents that address the remediation of hydrazine spills. Highlands Stable Isotopes Corporation (HSI), a component unit of the University, has been pursuing commercialization of the various patents. Orders for isotopically labeled compounds have recently begun to come in at levels (i.e. \$38 and 57 thousand) that suggest HSI is beginning to establish a market with substantial growth potential.

At the same time, the commercialization of the hydrazine related patents has included a successful application at a nuclear power plant in Missouri, papers accepted for presentation at national meetings with the DOD and NASA officials, and a licensing agreement with a firm in Atlanta, Georgia to produce and market spill pads, wipes, and solutions for the several industries that use the 260,000 tons of hydrazine produced annually in the U.S..

All of this activity around the University's various patents suggests the potential for a significant new revenue source, which will need to be carefully monitored and nurtured during FY14.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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, 2013 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
Phone: (505) 454-3387
Fax: (505)454-3386

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF NET POSITION
Year Ended June 30, 2014**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 7,795,290	\$ -	\$ 310,219
Accounts receivable (net of an allowance of \$4,843,744)	886,674	-	-
Grants receivable (net of an allowance of \$411,630)	1,429,860	-	-
Other receivables	1,376,063	-	136,886
Inventories	463,189	-	-
Prepaid assets	28,389	-	3,103
Total current assets	<u>11,979,465</u>	<u>-</u>	<u>450,208</u>
Noncurrent Assets			
Assets held by others	4,099,154	-	-
Due from component unit	1,169,206	-	-
Investments	7,210,074	-	6,478,521
Capital assets, net of accumulated depreciation	82,801,278	-	6,374,667
Total noncurrent assets	<u>95,279,712</u>	<u>-</u>	<u>12,853,188</u>
Total assets	<u>\$ 107,259,177</u>	<u>-</u>	<u>13,303,396</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 4,622,140	-	21,301
Accrued compensated absences	796,303	-	-
Unearned revenue	3,803,745	-	-
Accrued Interest Payable	212,646	-	1,340
Bonds payable-current	1,035,000	-	-
Notes payable-current	75,000	-	157,590
Total current liabilities	<u>10,544,834</u>	<u>-</u>	<u>180,231</u>
Noncurrent Liabilities			
Accrued compensated absences	135,932	-	-
Due to University	-	1,169,206	-
Assets held for others	-	-	1,783,482
Bonds payable long-term portion	28,290,000	-	-
Notes payable-long term portion	381,250	-	996,566
	<u>28,807,182</u>	<u>1,169,206</u>	<u>2,780,048</u>
Total liabilities	<u>\$ 39,352,016</u>	<u>1,169,206</u>	<u>2,960,279</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 53,020,028	-	5,220,511
Restricted for			
Nonexpendable	-	-	-
Restricted for scholarships and grants	8,851,486	-	3,858,569
Expendable	-	-	565,136
Restricted for scholarships and grants	-	-	-
Loans	1,174,132	-	-
Capital projects	723,140	-	-
Debt service	3,163,308	-	-
Unrestricted	975,067	(1,169,206)	698,901
Total Net Position	<u>67,907,161</u>	<u>(1,169,206)</u>	<u>10,343,117</u>
Total Net Position and Liabilities	<u>\$ 107,259,177</u>	<u>-</u>	<u>13,303,396</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended June 30, 2014**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
Operating revenues			
Tuition and fees	\$ 14,220,513	-	-
Tuition discounts and allowances	(2,808,700)	-	-
	<u>11,411,813</u>		<u>-</u>
Federal grants and contracts	9,383,877	-	-
State and local grants and contracts	3,846,458	-	-
Private grants and contracts	2,008,648	-	-
State land, permanent fund and investment income	198,558	-	-
Sales and services of auxiliary enterprises	4,840,478	-	-
Contributions	-	-	885,657
Other	713,283	-	372,385
Total operating revenues	<u>32,403,115</u>	<u>-</u>	<u>1,258,042</u>
Expenses			
Instruction and general			
Instruction	19,241,098	-	-
Academic support	2,730,041	-	-
Student services	3,812,983	-	-
Institutional support	6,090,361	-	-
Operations and maintenance support	4,980,208	-	-
	<u>36,854,692</u>		<u>-</u>
Student social/cultural development	937,144	-	-
Research	1,517,819	-	-
Public service	6,948,124	-	-
Student aid grants and stipends	9,066,082	-	250,509
Tuition discounts and allowances	(2,808,700)	-	-
Auxiliary enterprises	4,362,187	-	-
Athletics	2,648,738	-	-
Other expenditures	169,318	138,476	960,617
Depreciation	3,411,574	-	57,698
Total operating expenses	<u>63,106,979</u>	<u>138,476</u>	<u>1,268,824</u>
Operating (loss) income	<u>\$ (30,703,864)</u>	<u>(138,476)</u>	<u>(10,782)</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION (CONTINUED)
Year Ended June 30, 2014**

	<u>Primary Institution</u>	<u>Stable Isotopes Corporation</u>	<u>Highlands Foundation</u>
Non operating revenues (expenses)			
State appropriations	\$ 30,123,707	-	-
Interest and investment income	1,402,462	-	667,126
Capital appropriations	<u>229,886</u>	<u>-</u>	<u>-</u>
Net non-operating revenues	<u>31,756,055</u>	<u>-</u>	<u>667,126</u>
Income before other revenues, expenses, gains and losses	<u>1,052,190</u>	<u>(138,476)</u>	<u>656,344</u>
Other - non operating expenses			
Interest on indebtedness	-	-	-
Additions to permanent endowments	-	-	161,555
Other	<u>1,810,809</u>	<u>-</u>	<u>-</u>
Total other	<u>1,810,809</u>	<u>-</u>	<u>161,555</u>
(Decrease)/Increase in Net Position	<u>(758,619)</u>	<u>(138,476)</u>	<u>817,899</u>
Net Position			
Net Position - beginning of year	<u>68,665,780</u>	<u>(1,030,730)</u>	<u>9,525,218</u>
Net Position, end of year	<u>\$ 67,907,161</u>	<u>(1,169,206)</u>	<u>10,343,117</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014**

	<u>Primary Institution</u>
Cash Flows From Operating Activities	
Tuition and fees	\$ 12,238,932
Grants and contracts	16,199,522
Sales and services of educational activities	4,215,858
Other operating receipts	716,170
Payments to employees for salaries and benefits	(36,665,366)
Payments to suppliers	(26,893,908)
Net cash used by operating activities	<u>(30,188,792)</u>
Cash Flows From Noncapital Financing Activities	
State appropriations	30,123,707
Land and permanent fund	198,558
Net cash provided by noncapital financing activities	<u>30,322,265</u>
Cash Flows From Investment Activities	
Investment Income	1,402,462
Net cash provided by investment activities	<u>1,402,462</u>
Cash Flows From Capital and Related Financing Activities	
State Appropriations for Capital	229,886
Cash paid for capital assets	1,556,744
Repayments of bonds payable	(1,090,000)
Interest payment on bonds	(1,284,652)
Net cash used by capital and related financing activities	<u>(588,022)</u>
Net increase in cash and cash equivalents	947,912
Cash and cash equivalents, beginning of year	<u>6,858,561</u>
Cash and cash equivalents, end of year	<u>\$ 7,806,473</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating (loss) income	\$ (30,703,864)
Adjustments to reconcile operating (loss) income to net cash used by operating activities	
Depreciation expense	3,411,574
Unrealized gain/loss on investments	-
Changes in assets and liabilities	
Receivables	299,835
Inventories	66,006
Other assets	13,120
Accounts payable and accrued expenses	(4,091,503)
Deferred revenue	875,200
Investment and interest income	-
Compensated absences	(59,160)
Net cash used by operating activities	<u>\$ (30,188,792)</u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

component units based on the nature and significance of their relationship with the University. As required by GASB 14 and 39, these basic financial statements present the University and its component units for which the University is considered to be financially accountable. These were selected for inclusion based on criteria as set forth in GASB 14 and 39. In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the University. The decision to include a potential component unit in the University's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following discretely presented component units are included in these financial statements.

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

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

- **Highlands Stable Isotopes (HSI)**

Highlands Stable Isotopes Corporation was granted all of the powers available to it pursuant to paragraph 21-28-6 NMSA 1978 of the University – Research Park and Economic Development Act. The new corporation was filed under the New Mexico Non-profit Corporation Act and is seeking Section 501 (c) (3) of the Internal Revenue Code of 1986 status. The purpose of the corporation is to conduct research and research commercialization in accordance with the needs of the University. Highlands Stable Isotopes Corporation does issue separate financial statements.

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

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Procedures for Approval of Operating Budgets

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

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

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

The Accompanying Schedules of Budget and Actual, for year ended June 30, 2014, (the "schedule") is prepared on the basis of accounting prescribed by the State of New Mexico, HED. HED 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 modified accrual basis, but not on the basis required by accrued basis. Depreciation expense, scholarship allowance, Perkins Loans/Endowment Scholarship and Endowment/Agency expenditures are accrual requirements not included on the modified accrual 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.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 2014 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2014. Deferred revenues also include amounts received from grant and contract sponsors that have not been earned.

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

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. For equipment (including software), the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University does capitalize historical treasures or works of art.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 50 years for buildings, 15 years for infrastructure, 10 years for library books, 5 to 12 years for furniture, fixtures and equipment and 5 years for autos. At July 1, 2012, the university revised its policy for depreciating buildings by increasing the estimated useful life from 25 years to 50 years.

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

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

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

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

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

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) most Federal, state and local grants and contracts and Federal appropriations, and (3) interest on institutional student loans.

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

Classification of Expenses. The University classifies its expenses as either operating or non-operating expenses according to the following criteria:

Operating expenses: Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies, and other services; (4) professional fees; and (5) depreciation expenses related to property, plant, and equipment.

Non-operating expenses: Non-operating expenses include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and other expenses that are defined as non-operating expenses by GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB 34.

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

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

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 2. CASH AND CASH EQUIVALENTS

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

	New Mexico Highlands University	Component Unit NMHU Foundation
Cashier's cash	\$ 15,752	-
Bank deposits	7,533,171	310,219
State Treasurer local government investment pool	246,367	-
	<u>\$ 7,795,290</u>	<u>310,219</u>

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, 2014, none of the University's bank balance of \$7,795,290 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, 2014, 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, 2014, the State Treasurer Investment Pool was paying the University .1114 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;

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

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 48.6 days at reset and 116.2 days at final.

NOTE 3. GRANTS RECEIVABLE

As of June 30, 2014, grants receivables consisted of the following:

Federal grants	\$ 346,688
State grants	688,011
Private grants	392,964
Other grants	<u>413,827</u>
Total grants receivables	1,841,490
Allowance for uncollectible grant receivable	<u>(411,630)</u>
Grants receivable, net	<u>\$ 1,429,860</u>

NOTE 4. OTHER RECEIVABLES

Other Receivables as of June 30, 2014, consisted of the following:

Perkins loan receivable	\$ 796,303
Due from State of New Mexico	13,427
Other	<u>566,333</u>
Other Receivables	<u>\$ 1,376,063</u>

The Due from State of New Mexico consists of amount due for capital projects as of June 30, 2014.

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 5. INVENTORIES

Inventories as of June 30, 2014, consisted of the following:

Facilities services	\$ 282,885
Athletics	170,532
Golf course	<u>9,772</u>
Total inventory	<u>\$ 463,189</u>

NOTE 6. INVESTMENTS

At June 30, 2014, investments of the University and its components units are summarized as follows:

	New Mexico Highlands University	Component Unit NMHU Foundation
State Investment Council	\$ 3,508,466	-
State Investment Council (land grant)	3,701,609	-
Cash & money market funds	-	190,777
Certificates of deposit	-	1,003,172
Mutual funds	-	205,124
Common stocks	-	4,136,878
U.S. obligations	-	328,612
U.S. agency obligations	-	94,064
U.S. corporate bonds	-	<u>519,848</u>
Total investments	<u>\$ 7,210,075</u>	<u>6,478,521</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

NEW MEXICO HIGHLANDS UNIVERSITY
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June 30, 2014

NOTE 6. INVESTMENTS (CONTINUED)

Foundation Investment Risk. As of June 30, 2014, the Foundation had the following investments subject to investment rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
U.S. obligations	328,612	3.83
U.S. agency obligations	94,064	1.22
U.S. corporate bonds	<u>519,894</u>	7.39
	<u>\$ 942,524</u>	

The Foundation is not required to follow State Statutes and therefore no collateralization is required. As of June 30, 2014, none of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

Foundation Credit Risk. As of June 30, 2014, the Foundation had the following investments subject to investment rate risk:

U.S. Corporate Bonds:

<u>Rating</u>	<u>Fair Value</u>
A	\$ 340,644
B	<u>179,204</u>
	<u>\$ 519,848</u>

U.S. Agency Obligations:

<u>Rating</u>	<u>Fair Value</u>
BAA1/BBB	<u>\$ 94,064</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, NMSA1978). During the current year, donor-restricted endowments had net appreciation of \$667,126.

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 7. ASSETS HELD BY OTHERS

As of June 30, 2014, assets held by others consist of the following:

Foundation Endowment	\$ 1,783,482
Debt Service Reserves	<u>2,315,672</u>
Total Assets Held by Others	<u>\$ 4,099,154</u>

NOTE 8. CAPITAL ASSETS

The following schedule presents the changes in capital assets and accumulated depreciation by major asset category for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 2,793,955	-	-	2,793,955
Artwork	71,650	-	-	71,650
Construction-in-progress	-	-	-	-
Total capital assets not being depreciated	<u>\$ 2,865,605</u>	-	-	<u>2,865,605</u>
Other capital assets				
Infrastructure	\$ 28,516,983	130,782	-	28,647,764
Buildings	126,541,843	167,568	-	126,709,411
Furniture, fixtures and equipment	16,819,631	377,779	(3,984,744)	13,212,666
Library materials	8,620,307	370,877	(111,820)	8,879,364
Patents	73,686	-	-	73,686
Total other capital assets	<u>180,572,450</u>	<u>1,047,006</u>	<u>(4,096,565)</u>	<u>177,522,891</u>
Less Accumulated depreciation for				
Infrastructure	(10,975,601)	(961,383)	-	(11,936,984)
Buildings	(63,567,282)	(1,978,021)	-	(65,545,303)
Furniture, fixtures and equipment	(15,562,370)	(266,194)	(3,632,630)	(12,195,934)
Library materials	(7,814,842)	(205,975)	(111,820)	(7,908,998)
Total accumulated depreciation	<u>(97,920,095)</u>	<u>(3,411,573)</u>	<u>(4,096,564)</u>	<u>(97,587,219)</u>
Other capital assets, net	<u>\$ 85,517,960</u>	<u>(2,364,567)</u>	<u>(352,114)</u>	<u>82,801,278</u>

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NOTE 8. CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets summary:				
Capital assets not being depreciated	\$ 2,865,605	-	-	2,865,605
Other capital assets	180,572,450	1,047,006	4,096,564	177,522,891
Total cost of capital assets	183,438,055	1,047,006	4,096,564	180,388,496
Less accumulated depreciation	(97,920,095)	(3,411,573)	3,744,450	(97,587,218)
Capital assets, net	\$ 85,517,960	(2,364,906)	352,114	82,801,278

Depreciation expense for the year totaled \$3,411,574.

New Mexico Highlands University Foundation, Inc.

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 1,732,942	676,899	-	2,409,842
Artwork	2,597,365	40,400	-	2,637,765
Total capital assets not depreciated	4,330,307	717,299	-	5,047,606
Other capital assets				
Buildings held for lease to University	2,250,237	-	-	2,250,237
Less accumulated depreciation for				
Buildings	(865,478)	(57,698)	-	(923,176)
Other capital assets, net	\$ 5,715,066	659,600	-	6,374,666
Capital assets summary				
Capital assets not being				
Depreciated	\$ 4,330,307	717,299	-	5,047,606
Other capital assets, at cost	2,250,237	-	-	2,250,237
Total cost of capital assets	6,580,544	717,299	-	7,297,843
Accumulated depreciation	(865,477)	(57,698)	-	(923,175)
Capital assets, net	\$ 5,715,067	659,600	-	6,374,667

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
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NOTE 9. ACCOUNTS PAYABLE/ACCRUED AND OTHER LIABILITIES

University:

The \$4,622,140 amount consists of \$1,673,440 of accounts payables and other liabilities, and \$2,948,700 of accrued payroll tax liabilities.

Discretely Presented Component Unit - Foundation

Foundation's \$21,301 of accounts payables, and \$1,340 of accrued interest liabilities.

Discretely Presented Component Unit – Highlands Stable Isotopes

\$1,169,206 of accounts payable liabilities.

NOTE 10. LONG-TERM LIABILITIES

Long-term liability activity for the University for the Year ended June 30, 2014, is as follows:

	Balance June 30, 2013	Additions	Deletion	Balance June 30, 2014	Due Within One Year
A'viands note	\$ 531,250	-	(75,000)	456,250	75,000
Bonds payable	\$ 30,415,000	-	(1,090,000)	29,325,000	1,035,000
Accrued Compensated balances	\$ 991,396	932,235	(991,396)	932,235	796,303

New Mexico Highlands University Foundation, Inc.

Long-term liability activity for the year ended June 30, 2014, is as follows:

	Balance June 30, 2013	Additions	Deletion	Balance June 30, 2014	Due Within One Year
Notes payable	\$ 1,280,124	32,274	(158,242)	1,154,156	157,590

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NOTE 11. BONDS PAYABLE

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

Systems refunding revenue bonds services, 2012, issued November 1, 2012, with interest ranging from .93% to 4.26% - final maturity 2034.	\$ 17,080,000
Systems refunding revenue bonds services, 2009A issued October 15, 2009, with interest ranging from 3.00% to 4.50% - final maturity 2021.	3,090,000
Systems refunding revenue bonds services, 2009B, issued October 15, 2009, with interest ranging from 5.32% to 6.07% - final maturity 2035.	<u>9,155,000</u>
Total bonds and notes payable	29,325,000
Less amounts due within one year	<u>(1,035,000)</u>
Long term bonds and notes payable	<u>\$ 28,290,000</u>

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,105,000	1,193,487	2,298,487
2019	1,140,000	1,159,404	2,299,404
2020-2024	6,330,000	5,149,154	11,479,154
2025-2029	7,585,000	3,651,517	11,236,517
2030-2034	9,235,000	1,664,095	10,899,095
2035	760,000	50,685	810,685
Total	<u>\$ 29,325,000</u>	<u>16,599,551</u>	<u>45,924,551</u>

A'viands Food & Services note is payable at \$75,000 per year over the next 6 years. The interest rate on the note is 0%.

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
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NOTE 11. BONDS PAYABLE AND NOTES PAYABLE (CONTINUED)

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 July 30, 2014 with 60 monthly payments of \$27,000 and one irregular last payment of \$113,391 at a 4% fixed interest rate.	
The note is secured with building and land.	\$ 1,154,156
Current portion	<u>(157,590)</u>
Total long-term portion	<u>\$ 996,566</u>

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

<u>Year</u>	<u>Amount</u>
2014	\$ 208,153
2015	208,153
2016	208,153
2017	208,153
2018	208,153
2019	<u>113,391</u>
	<u>\$ 1,154,156</u>

NOTE 12. UNEARNED REVENUE

As of June 30, 2014, unearned revenue consisted of the following:

Grants and Contract	\$ 1,737,962
Tuition	1,375,598
Housing/meal Plan	27,300
Other	<u>662,885</u>
Total	<u>\$ 3,803,745</u>

NEW MEXICO HIGHLANDS UNIVERSITY
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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. PENSION PLAN – EDUCATION RETIREMENT BOARD

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.

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.

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NOTE 14. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)

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

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NOTE 14. PENSION PLAN – EDUCATION RETIREMENT (CONTINUED)

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.

Funding Policy. Effective July 1, 2013, 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 10.10%. The University is required to contribute 13.15% of reportable compensation for members with annual wages of \$20,000 or less and 13.15% for members whose annual wages are above \$20,000. Effective July 1, 2013, 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 RTW 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 10.10%. The University is required to contribute 13.15% of gross wages for members participating in the Return To Work Program. The University is also required to contribute 13.15% of gross wages for PERA Retiree members. 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, 2014, June 30, 2013 and June 30, 2012, were \$2,849,006.73, \$2,323,230.92, and \$1,954,478, and, respectively, equal to the amount of the required contribution for each fiscal year.

NOTE 15. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the 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.

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**NOTE 15. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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

Funding Policy. The Retiree Health Care Act (Section 10-7C13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basis life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website www.nmrhca.state.nm.us.

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 2% of each participating employee's annual salary; each participating employee is required to contribute 1% 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 ending June 30, 2014, June 30, 2013, and June 30, 2012 were \$476,313.72, \$472,833.07, and \$433,349, respectively which equals the required contributions for each year.

NOTE 16. ALTERNATIVE RETIREMENT PLAN

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan (ARP). With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 10.15% to the carrier selected by the employee. The employee contributes 10.10% of his/her gross salary to the carrier they select. Contributions by the University totaled \$86,660.52 to the NMEERA for the alternative retirement plan and \$272,056.67 to the various carriers for the year ended June 30, 2014. Employees contributed \$292,634.71 to the various carriers under the alternative plan during the year ended June 30, 2014.

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NOTE 17. 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, 2014, was \$141,900 which has been charged to expenditures.

NOTE 18. LEASES

At June 30, 2014, the University had various operating lease arrangements summarized as follows:

Operating Leases. Rent expense for operating leases amounted to \$851,991 for the year ended June 30, 2014. Included in current year rent expense is a lease for a building owned by the Foundation in the amount of \$372,385. The lease agreement expires during the year ended June 30, 2017. The lease with the Foundation has been included in the minimum lease payments below.

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2014:

<u>Year Ending</u> <u>June 30</u>	<u>Operating</u> <u>Leases</u>
2015	\$ 849,853
2016	608,099
2017	<u>611,130</u>
	<u>\$ 2,029,082</u>

NOTE 19. COMMITMENTS AND CONTINGENCIES

Commitments. At June 30, 2014, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	\$ 880,656
Plant Funds	\$ 1,029,067

Contingencies. In February 2012, the University terminated its contract with Makwa Builders LLC ("Makwa") for construction of the client's Student Union Building (the Project), under a provision known as "termination for convenience." Under the "termination for convenience" provision, the University is responsible for compensating Makwa for work completed but not paid for through the date of termination, for reasonable overhead and profit, and for cost related to demobilization from the Project. On April 30, 2012, Makwa submitted a "termination for convenience statement for payment" which was in excess of what was due to Makwa. The University responded to Makwa's

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NOTE 19. COMMITMENTS AND CONTINGENCIES (CONTINUED)

request for 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 for payment and proceeded to the next step outlined in the contract for “dispute resolution.”

On October 3, 2012, Makwa filed Chapter 11 (reorganization) Bankruptcy. Makwa’s initial filing listed between 50 and 99 creditors, \$50K in assets, and \$1M to \$10M in liabilities. On October 24, 2012, Makwa submitted an amended statement of financial affairs (SOFA) and listed NMHU as an unknown contingent.

There are thirteen lawsuits filed against Makwa. The majority of them involve violations of the “Little Miller Act of New Mexico.” This Act protects subcontractors from general contractors withholding money for work completed and paid by the client. One of the initial actions taken by Makwa’s attorney was to petition the Bankruptcy court to move all pending legal disputes under the Bankruptcy’s court jurisdiction. To date, the majority of claims have been resolved either by mediation, arbitration, or out-of-court settlements.

As mentioned above, the dispute resolution processes outlined in the construction Agreement between Makwa and NMHU mandates participation in mediation and binding arbitration facilitated by the American Association of Arbitration (AAA). On January 31, 2013, NMHU and Makwa participated in mediation; whereby, Makwa reduced its initial claim of \$3.3M to a much lower amount; however, mediation has not formally concluded, so NMHU or Makwa are not permitted to publically state the amount.

During the mediation, it became apparent to NMHU and Makwa that all subcontractors’ claims needed to be addressed by both parties in order to reach a settlement agreement based on the provisions of the “termination for convenience.” NMHU has agreed to mediate with Makwa and all unresolved subcontractors so that both parties can resolve all the subcontractors’ claims against Makwa, and ultimately NMHU and Makwa can reach a settlement agreement. This mediation is scheduled for November 6 – 8, 2013.

NMHU has participated in numerous other mediations with subcontractors and has successfully proven to mediators and subcontractors both that NMHU has paid Makwa for services rendered through December 2011. NMHU and NMHU’s contracted architectural firm, Studio Southwest Architects Inc. disputed the January and February 2012 pay applications submitted by Makwa.

NMHU has disputed Makwa submission for claims on “termination of convenience;” because Makwa’s submission included costs that were not allowed and/or associated with the project. Secondly, NMHU is entitled to “off-sets” on items (i.e., “agreed upon deductive change orders and defective work performed by Makwa and its subcontractors.”) NMHU has only agreed to pay for “*actual*” work completed (but not paid for through the date of termination), for reasonable overhead and profit, and for “*actual*” costs related to demobilization from the Project less NMHU’s entitled “offsets.”

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NOTE 19. COMMITMENTS AND CONTINGENCIES (CONTINUED)

No amounts have been recorded in the June 30, 2014 financial statements for this potential contingency.

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

NOTE 20. RESEARCH COMMERCIALIZATION

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

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

NOTE 21. LEASE WITH NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION

The Foundation leases a building it owns in Rio Rancho, New Mexico to New Mexico Highlands University. The Foundation entered into a twenty-year lease agreement on January 30, 1997.

Lease income for the year ended June 30, 2013 was \$371,940. Base rent per month is \$30,995 through the term of the lease.

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 22. RECONCILIATION OF BUDGET

	<u>Revenues</u>
Budget Basis Revenue	\$ 65,613,715
Scholarship Allowance	(2,808,700)
Loan	83,931
Endowment	1,036,271
Agency	<u>233,953</u>
Revenues (Operating and Non operating) per accrual basis	<u>\$ 64,159,170</u>
	<u>Expenditures</u>
Budget Basis Expenditures	\$ 65,933,926
Capital Expenditures	(2,021,713)
Depreciation	3,411,574
Scholarship Allowance	(2,808,700)
Endowment/agency Expenditures	49,783
Agency Expenditures	233,952
Other	1,208,966
Bond Payments	<u>(1,090,000)</u>
Expenses (Operating and Non operating) per accrual basis	<u>\$ 64,917,788</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF BUDGETARY COMPARISONS
COMBINED REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 7,159,320	5,960,604	5,192,909	(767,695)
Unrestricted & Restricted Revenues				
State general fund appropriations	30,057,500	30,123,707	30,123,707	-
Federal revenue sources	11,434,018	10,288,510	9,083,098	(1,205,412)
Tuition and fees	12,718,723	12,890,570	13,834,791	944,221
Land and permanent fund	244,344	244,344	198,558	(45,786)
Private grants/contracts	3,254,292	3,166,472	1,775,936	(1,390,536)
Sales & service	5,965,827	6,544,956	4,964,926	(1,580,030)
Government grants - state	12,118,691	13,943,805	4,076,344	(9,867,461)
Endowments and private gifts	-	-	-	-
Other	958,532	1,154,196	1,556,356	402,160
Total revenues	<u>76,751,927</u>	<u>78,356,560</u>	<u>65,613,715</u>	<u>(12,742,845)</u>
Total Unrestricted & Restricted Revenues	<u>83,911,247</u>	<u>84,317,164</u>	<u>70,806,624</u>	<u>(13,510,540)</u>
Unrestricted & Restricted Expenditures				
Instruction and general	37,357,318	37,511,071	36,854,692	(656,379)
Student social and cultural	939,296	1,005,156	937,144	(68,012)
Research	2,327,407	1,983,469	1,517,819	(465,650)
Public service	10,232,727	7,907,632	6,948,124	(959,508)
Internal service departments	47,923	218,681	169,318	(49,363)
Student aid	8,680,636	9,535,129	8,808,595	(726,534)
Auxiliary enterprises	4,906,978	4,216,337	4,128,235	(88,102)
Intercollegiate athletics	2,435,241	2,747,402	2,648,738	(98,664)
Capital outlay	1,165,000	1,058,196	462,331	(595,865)
Renewal and replacements	1,271,022	953,268	1,083,127	129,859
Retirement of indebtedness	2,303,430	2,193,200	2,375,802	182,602
Total Unrestricted & Restricted Expenditures	<u>71,666,978</u>	<u>69,329,541</u>	<u>65,933,926</u>	<u>(3,395,615)</u>
Net Transfers	-	-	-	-
Change in net position	<u>5,084,949</u>	<u>9,027,019</u>	<u>(320,211)</u>	<u>(9,347,230)</u>
Ending Fund Balance	<u>\$ 12,244,269</u>	<u>14,987,623</u>	<u>4,872,697</u>	<u>(10,114,926)</u>

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, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 670,775	1,694,670	591,938	(1,102,732)
Revenues				
Tuition	10,872,628	10,872,628	10,128,672	(743,956)
Miscellaneous fees	493,560	511,410	559,034	47,624
Government appropriations-federal	-	-	-	-
Government appropriations-state	27,162,645	27,162,645	27,162,645	-
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	244,344	244,344	198,558	(45,786)
Private gifts	-	-	-	-
Sales & service	2,000	2,000	2,582	582
Other sources	809,432	830,225	872,016	41,791
Total revenues	<u>39,584,609</u>	<u>39,623,252</u>	<u>38,923,505</u>	<u>(699,747)</u>
Total Unrestricted Revenues	<u>40,255,384</u>	<u>41,317,922</u>	<u>39,515,443</u>	<u>(1,802,479)</u>
Expenditures				
Instruction	20,219,132	19,775,237	17,796,622	(1,978,615)
Academic support	2,777,910	2,745,900	2,590,644	(155,256)
Student services	3,355,600	3,535,250	3,422,568	(112,682)
Institutional support	5,662,624	5,909,019	6,114,271	205,252
Oper. & maint. of plant	4,799,256	4,887,759	4,906,928	19,169
Total expenditures	<u>36,814,522</u>	<u>36,853,165</u>	<u>34,831,033</u>	<u>(2,022,132)</u>
Net Transfers	2,770,087	2,352,333	2,333,351	(18,982)
Change in net assets	<u>-</u>	<u>417,754</u>	<u>1,759,121</u>	<u>1,341,367</u>
Ending Fund Balance	<u>\$ 670,775</u>	<u>2,112,424</u>	<u>2,351,059</u>	<u>238,635</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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	430,894	442,564	333,696	(108,868)
Government grants - state	95,226	191,195	143,770	(47,425)
Contracts - local	-	-	-	-
Private grants/contracts	16,676	24,147	20,697	(3,450)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	<u>542,796</u>	<u>657,906</u>	<u>498,164</u>	<u>(159,742)</u>
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	<u>542,796</u>	<u>657,906</u>	<u>498,164</u>	<u>(159,742)</u>
Expenditures				
Instruction	355,015	394,705	307,279	(87,426)
Academic support	32,742	45,865	31,926	(13,939)
Student services	96,495	136,113	97,628	(38,485)
Institutional support	29,142	39,953	34,369	(5,584)
Oper. & maint. of plant	29,402	41,270	26,961	(14,309)
Total expenditures	<u>542,796</u>	<u>657,906</u>	<u>498,164</u>	<u>(159,742)</u>
Change in net position	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL
Year Ended June 30, 2014

Schedule 1
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	Pledged Collateral		Southwest	Wells Fargo	Community	State	Total
	Safekeeping Location	Type of Security	Capital Bank Las Vegas, NM	Albuquerque NM	1st Bank Las Vegas, NM	Treasurer Santa Fe, NM	
Funds on deposit							
Demand deposits			\$ 1,655,616	702,361	5,590,796	246,367	8,195,140
FDIC insurance							
Demand deposits			(250,000)	(250,000)	(250,000)	-	(750,000)
Total uninsured public funds			\$ 1,405,616	452,361	5,340,796	246,367	7,445,140
Fifty percent collateral requirement per section 6-10-17 NMSA			\$ 702,808	226,181	2,670,398	-	3,599,387
Pledged collateral							
	Federal Home Loan Bank of Dallas	Irrevocable Standby Letters of Credit No.2647002079	-	-	2,500,000	-	2,500,000
	Federal Reserve Bank	FNMA ARM CUSIP #31416BLS5	-	-	30,396	-	30,396
	Federal Home Loan Bank	FNMA CUSIP #31400H7K3	-	-	424,093	-	424,093
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7	-	-	455,811	-	455,811
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7	-	-	546,973	-	546,973
	Federal Home Loan Bank/ State Street Bank	FFCB Bond CUSIP #3133ECH80	949,419	-	-	-	949,419
	Bank of New York Mellon	FNMA FNMS CUSIP #3138W9AZ3	-	366,487	-	-	366,487
		FNMA FNMS CUSIP #31418A2W7	-	85,979	-	-	85,979
			949,419	452,466	3,957,273	-	5,359,158
Deficiency / (Excess) of pledged collateral over the required amount			\$ (246,611)	(226,286)	(1,286,875)	-	(1,759,772)

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL (CONTINUED)
Year Ended June 30, 2014

Schedule 1
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Name of Bank	Account Type	Balance Per Bank Statement	Reconciled Balance Per Books
Southwest Capital Bank - Las Vegas			
Account payable account	Interest bearing checking	\$ 438,918	(33,308)
Payroll account	Interest bearing checking	249,638	229,266
University wire-transfer account	Interest bearing checking	329,170	329,170
Cash receipts account	Interest bearing checking	293,192	360,718
Cashier's credit card account	Interest bearing checking	25,293	25,739
Direct lending account	Interest bearing checking	319,405	319,405
Total		<u>1,655,616</u>	<u>1,230,990</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Non-interest bearing checking	8,693	8,693
Rio credit card	Non-interest bearing checking	10,268	10,268
NMHU business	Non-interest bearing checking	497,173	497,173
Online payments	Non-interest bearing checking	152,120	160,729
NMHU golf course	Non-interest bearing checking	13,931	13,931
Farmington	Non-interest bearing checking	11,066	11,081
NMHU savings	Savings	9,110	9,110
Total		<u>702,361</u>	<u>710,985</u>
Community 1st Bank - Las Vegas			
NMHU golf course	Non-interest bearing checking	12,029	12,428
Capital outlay	Money market account	5,575,171	5,575,172
NMHU savings	Savings	3,596	3,596
Total		<u>5,590,796</u>	<u>5,591,196</u>
State Treasurer's Office			
Local government investments	Pooled	28,176	28,176
Local government investments	Pooled	218,191	218,191
		<u>246,367</u>	<u>246,367</u>
Cashier's cash		<u>-</u>	<u>15,752</u>
	Total cash and cash equivalents	<u><u>8,195,140</u></u>	<u><u>7,795,290</u></u>
University Investments:			
State investment council	Pooled	3,508,466	3,508,466
State investment council (land grant)	Pooled	3,701,609	3,701,609
	Total investments	<u><u>\$ 7,210,074</u></u>	<u><u>7,210,074</u></u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL (CONTINUED)
 Year Ended June 30, 2014

Schedule 1
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Foundation

Investments:

Cash and Money Market Funds	Pooled	Amount
		<u>\$ 190,777</u>

Certificates of deposits	Maturity Date	Amount
	Various	<u>\$ 1,003,172</u>

Stocks	Amount
Common Stocks	\$ 4,118,030
Preferred Stocks	18,848
Total Stocks	<u>\$ 4,136,878</u>

Mutual Funds

Transamerica Sht Term Bond	<u>\$ 205,124</u>
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US Government Securities

Name	Maturity Date	Amount	Interest Rate
US Treasury	4/30/2015	\$ 15,299	2.500%
US Treasury	4/30/2015	62,012	0.125%
US Treasury	7/31/2016	38,790	1.500%
US Treasury	1/31/2017	38,169	0.875%
US Treasury	5/15/2017	44,172	4.500%
US Treasury	1/31/2019	39,550	1.250%
US Treasury	5/15/2019	17,159	3.125%
US Treasury	2/15/2020	32,998	3.625%
US Treasury	11/15/2020	20,775	2.625%
US Treasury	2/15/2022	19,689	2.000%
Total Government Securities		<u>\$ 328,612</u>	<u>1.944%</u>

Name	Maturity Date	Amount	Interest Rate
U.S. Agency			
Fed Natl Mtg Assn	10/15/2014	\$ 20,258	4.63%
Fed Home Ln Mtg Corp	9/10/2015	40,724	1.75%
Fed Home Ln Mtg Corp	8/25/2016	30,903	2.00%
Accrued Interest	6/30/2014	2,179	
Total U.S. Agency		<u>\$ 94,064</u>	<u>2.79%</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL (CONTINUED)
Year Ended June 30, 2013

Schedule 1
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Foundation

Investments:

Corporate Bonds

Name	Maturity Date	Amount	Interest Rate	Rating
El Du Pond dE Nemour & Co	1/15/2015	\$ 25,403	3.250%	A
JP Morgan Chase & Co	1/20/2015	20,354	3.700%	A
American Express Credit	6/12/2015	20,254	1.750%	A-
Texas Instrument Inc	5/16/2016	41,347	2.375%	A+
General Electric Capital Corp	1/9/2017	26,151	2.900%	AA+
Wells Fargo Co	12/11/2017	28,447	5.625%	A+
United Parcel Service	1/15/2018	11,406	5.500%	A+
Sysco Corporation	2/12/2018	16,796	5.250%	A
Procter & Gamble Co	2/15/2019	20,329	4.700%	AA-
Coca Cola Co	3/15/2019	11,382	4.875%	AA
Caterpillar Inc	5/27/2021	27,036	3.900%	A
Priceline.com Incorporated	3/15/2015	11,835	1.250%	BBB
Prologis Inc	3/15/2015	4,478	3.250%	BBB+
Mylan Inc	9/15/2015	11,631	3.750%	BBB-
Ares Cap Corp	2/1/2016	13,813	5.750%	BBB
Gilead Sciences, Inc.	5/1/2016	29,160	1.625%	A-
Electronic Arts Inc	7/15/2016	2,529	0.750%	
Ford Motor Co Senior Conv Nte	11/15/2016	9,991	4.250%	BBB-
Xilinx Inc	6/15/2017	9,941	2.625%	A-
Newmont Mining Corp	7/15/2017	8,445	1.625%	BBB
Priceline.com Incorporated	3/15/2018	7,084	1.000%	BBB
Salesforce.com Inc	4/1/2018	3,444	0.250%	
Lam Research Corp	5/15/2018	6,831	1.250%	BBB
RPM International Inc	12/15/2020	3,729	2.250%	BBB-
Danaher Corp	1/22/2021	16,021	0.000%	A+
Teva Pharmaceutical Finance LLC	2/1/2026	8,947	0.250%	A-
Nuance Communications	8/15/2027	2,120	2.750%	BB-
Jefferies Group	11/1/2029	9,624	3.875%	BBB
Toll Brothers Finance Corp	9/15/2032	6,368	0.500%	BB+
Cheasapeake Energy	5/15/2037	5,356	2.500%	BB+
Intel Corporation	8/1/2039	13,883	3.250%	A-
Novellus Systems Inc	5/15/2041	10,119	2.625%	BBB
Wellpoint Inc	10/15/2042	13,787	2.750%	A-
Fixed-Rate Capital Securities				
Metlife Inc CV	10/8/2014	15,213	5.000%	BBB-
UTD Technologies	8/1/2015	9,322	7.500%	BBB+
Nextera Energy Inc	9/1/2015	3,639	5.889%	BBB
Dominon Res Inc VA New Ser A	4/1/2016	6,803	0.766%	BBB
Stanley Balck & Decker Inc	11/17/2016	2,965	6.250%	BBB+
Exelon Corp CV Unit	6/1/2017	593	6.500%	
Stanley Black & Decker	11/17/2018	8,554	4.750%	BAA3
AMG Capital Tr II	10/15/2037	754	5.150%	BB+
NY Cmnty Capital Trust V	11/1/2051	10,768	6.000%	BB
Accr. Interest		3,196		
Total Corporate Bonds		<u>519,848</u>		
Net Unsettles Purchases/Sales	6/30/2014	\$ 46	<u>3.328%</u>	
Total Foundation Investments		<u>\$ 6,478,521</u>		

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF JOINT POWERS AGREEMENTS AND
 MEMORANDUMS OF UNDERSTANDING
 Year Ended June 30, 2013

<u>Type of Agreement</u>	<u>Participants</u>	<u>Responsible Operating Party</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Award</u>	<u>Portion \$ applicable to New Mexico Highlands University</u>	<u>Amount Contributed (FY14)</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>	<u>Agency Funded</u>	<u>Description</u>
MOU	San Juan College	NMHU	2/7/2000	ongoing				NMHU	Carol J. Spencer	San Juan College	To establish a unique educational partnership. It initiates the development of integrated, seamless curricula and 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 New Mexico Highlands University. 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 New Mexico Highlands University may integrate instructional matrices.
MOU	Santa Fe Community College	NMHU	8/24/2008	ongoing				NMHU	Sheila Ortego	Santa Fe Community College	To articulate twelve hours from the New Mexico Highlands University TESOL License Program into the recently developed SFCC TESOL Endorsement Program
MOU	TRIBES	NMHU	2/19/2009	6/30/2016				NMHU	Norman Coeoyate	TRIBES	To formalize the relationship between New Mexico Highlands University and TRIBES, with goals to promote higher education opportunities leading to the retention and successful completion of degree programs by TRIBES' students. Scholarships are tuition based on current tuition price for both undergraduates and graduates; a total of
MOU	Las Vegas San Miguel County Office Emergency Management	NMHU	10/28/2009	ongoing				NMHU	Dennis English	Las Vegas/San Miguel County Office Emergency Management	To provide proper coordination and expeditious delivery of support and assistance to the citizens of the city of Las Vegas and San Miguel County, New Mexico during an emergency or disaster response.
MOU	Region IV Narcotics Task Force	NMHU	12/15/2009	ongoing				NMHU	Gary Gold	Region IV Narcotics Task Force	To maintain a multi-jurisdictional task force (law enforcement body) in Region IV, which will coordinate available resources to combat a problem common to their respective agencies, the illegal possession, use, manufacture, and distribution of narcotics and dangerous drugs, particularly within the jurisdiction covered by the agencies.
MOU	The Department of Defense	NMHU	3/11/2011; updated 12/06/12	3/15/2021				NMHU	Clifford L.Stanley	Department of Defense	To establish new policy stating the eligibility criteria for tuition assistance (TA) and the requirement for a MOU from all educational institutions providing educational programs through the DoD TA Program, as well as, establish the Interservice Voluntary Education Board.
MOU	LUNA Community College	NMHU	3/24/2011	ongoing				NMHU	Vidal Martinez	LUNA Community College	Students completing the Associates of Applied Science Degree in Sports Performance and LUNA can apply those credits and courses toward a Bachelors of Art in Human Performance and Sport with a concentration in Exercise Science or Bachelors of Art in Health with a concentration in Health Promotion and Wellness at New Mexico
MOU	Department of Cultural Affairs	NMHU	6/17/2011	6/30/2014				NMHU	Doug Patinka	Department of Cultural	To provide internship opportunities for Media Arts majors and recent graduates.
MOU	The College of the Desert	NMHU	1/18/2012	ongoing				NMHU	Adrian Gonzales	The College of the Desert	To establish a process by which students may complete any of the options (1) Course-by-Course Transfer, (2) Dual Degree Program Completion, (3) Dual Degree Bachelor's Degree Completion, and (4) Reverse Transfer Option at College of the Desert to transfer and complete a four-year degree at New Mexico Highlands University.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF JOINT POWERS AGREEMENTS AND
 MEMORANDUMS OF UNDERSTANDING
 Year Ended June 30, 2013

<u>Type of Agreement</u>	<u>Participants</u>	<u>Responsible Operating Party</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Award</u>	<u>Portion \$ applicable to New Mexico Highlands University</u>	<u>Amount Contributed (FY14)</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>	<u>Agency Funded</u>	<u>Description</u>
MOU	New Mexico Museum of Natural History Science, and New Mexico Department of Cultural Affairs	NMHU	8/31/2012	6/30/2018				NMHU	Veronica Gonzales, Charles Walter	New Mexico Museum of Natural History and Science & New Mexico Department of Cultural Affairs	To establish and administer the "Museum Classroom" and "Start Up Studio".
MOU	University Blaise Pascal in Clermont-Ferrand, France	NMHU	1/22/2013	1/22/2018				NMHU	Benjamin van Wyk de Vries	University of Blaise Pascal	To foster international collaboration in education and research. Which is designed to facilitate and develop a genuine and mutually beneficial student-faculty exchange process and research relationship.
MOU	New Mexico forum for Youth in Community ENLACE-NER	NMHU	3/11/2013	6/30/2015				NMHU	Rosie Garibaldi	New Mexico Forum for Youth in Community	Development and implementation of a peer-to-peer youth suicide prevention program
MOU	New Mexico State Land Office	NMHU	5/16/2013	ongoing				NMHU	Ray Powell	New Mexico State Land Office	To define, formalize, and maintain an ongoing, cooperative relationship related to the collection of biological information and the management of natural resources to promote sustainability, responsible trust stewardship, and to increase academic opportunities, including research and teaching, in a manner mutually beneficial to the parties.
JPA	City of Las Vegas Police Department	NMHU	6/28/2013	ongoing				NMHU	Cassandra Fresquez	City of Las Vegas Police Department	New Mexico Highlands University Police Department and the City of Las Vegas Police Department are charged with the duty of enforcing the laws to protect their citizens from illegal activity. New Mexico Highlands University, New Mexico Highlands UniversityPD, the City, and the LVPD recognize that jurisdiction and authority are limited to their respective jurisdictions and such limitations are detrimental in combating crime in the City of Las Vegas and on the Campus of New Mexico Highlands University. The parties recognized that this problem can and must effectively be addressed by pooling resources and the joint exercise of their authorities. Therefore, established a JPA agreement for the prevention, investigation, control and prosecution of illegal activity and Police Training with he jurisdictions of the parties.
MOU	Pueblo of Nambe	NMHU	8/3/2013	ongoing				NMHU	Phillip A. Perez	Pueblo of Nambe	To address retention of Native American Students enrolled at New Mexico Highlands University.
MOU	Department of Cultural Affairs	NMHU	10/11/2013	6/30/2015	\$			NMHU	Doug Patinka	Department of Cultural Affairs	To support Internship Program expenses

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2014

Federal Grantor/Program Title	CFDA #	Award/Sub Award #	Expenditures
Research and Development Cluster			
National Science Foundation			
Mathematical and Physical Sciences	47.049	DMR-0934212	\$ 537,876
Passed through University of Central Florida			
Mathematical and Physical Sciences	47.049	24066045	2,922
Geosciences	47.050	EAR-1023278	75,983
Geosciences	47.050	EAR-1321763	15,014
Geosciences	47.050	EAR-1337254	136,067
Geosciences	47.050	EAR-1337123	11,510
Passed through University of New Mexico			
Office of Cyberinfrastructure	47.080	063013-8744	34,297
Office of Cyberinfrastructure	47.080	063037-8744	24,210
Passed through New Mexico State University			
Education and Human Resources - National Science Foundation	47.076	Q01543/SUB	3,174
Education and Human Resources	47.076	DUE-1154471	77,385
Passed through University of New Mexico			
Office of Cyberinfrastructure	47.080	063013-8744	3,217
Total National Science Foundation			<u>921,655</u>
Department of Health and Human Services			
Passed through New Mexico State University			
National Center for Research Resources - National Institutes of Health	93.389	Q01348/SUB	129,483
Total Department of Health and Human Services			<u>129,483</u>
Total Research and Development Cluster			<u>1,051,138</u>
US Department of Education			
Student Financial Aid Cluster			
Federal PELL Grant Program - Office of Federal Student Aid	84.063	P063P130275	5,563,180
Federal Supplemental Educational Opportunity Grants - Office of Federal Student Aid	84.007	P007A132646	181,664
TEACH Grant Programs - Office of Federal Student Aid	84.379	P379T140275	53,060
Federal Work-Study Program - Office of Federal Student Aid	84.033	P033A132646	349,109
Total Student Financial Aid Cluster - US Department of Education			<u>6,147,013</u>
TRIO Programs Cluster			
Student Support Services - Office of Postsecondary Education	84.042A	P042A100293	543,898
Total TRIO Programs Cluster - US Department of Education			<u>543,898</u>
US Department of Education			
Higher Education_Institutional Aid - Office of Postsecondary Education	84.031C	P031C110033	273,467
Rehabilitation Long-Term Training - Office of Special Education and Rehabilitative Services	84.129B	H129B090069	123,346
Rehabilitation Long-Term Training - Office of Special Education and Rehabilitative Services	84.129F	H129F080009	32,212
GEAR UP Program - Office of Postsecondary Education	84.334A	P334A070059	432,395
English Language Acquisition State Grants - Office of Elementary and Secondary Education	84.365Z	T365Z120020	344,162
Passed Through New Mexico Public Education Department			
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants) - Office of Elementary and Secondary Education	84.330B	14-924-00250	130,875
Total US Department of Education			<u>8,027,368</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor/Program Title	CFDA #	Award/Sub Award #	Expenditures
United States Department of Agriculture			
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2010-38422-21639	\$ 42,149
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2012-38422-19865	84,452
Passed Through New Mexico State University			
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	Q01512/SUB	93,169
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	10-DG-11031600-051	45,823
Total United States Department of Agriculture			<u>265,593</u>
United States Department of Interior			
National Cooperative Geologic Mapping Program - U.S. Geological Survey	15.810	G13AC00109	7,159
Passed Through US Department of Interior Bureau of Land Management			
Forest and Woodlands Resource Management - Bureau of Land Management	15.233	L11AC20181	87,377
Total US Department of Interior			<u>94,536</u>
National Endowment for the Humanities			
Promotion of the Humanities_Division of Preservation and Access	45.149	PG-52027-13	507
Total National Endowment for the Humanities			<u>507</u>
United States Department of Energy			
Environmental Remediation and Waste Processing and Disposal	81.104	DE-EM0001367	55,441
Total US Department of Energy			<u>55,441</u>
Department of Human Services			
Passed Through the University of Texas			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance			
- Substance Abuse and Mental Health Services Administration	93.243	UTA12-001073	9,429
Total US Department of Human Services			<u>9,429</u>
Corporation for National and Community Service			
Passed Through NM Department of Children Youth and Families			
AmeriCorps Recovery	94.006	13-690-15445	26,587
AmeriCorps Recovery	94.006	14-631-8001-00037 A1	51,692
Total Corporation for National and Community Service			<u>78,279</u>
Total Federal Awards Expended			<u>\$ 9,582,291</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
June 30, 2014**

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).

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 2014 or accrued revenue at June 30, 2014. 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, 2014, were \$796,303. The Schedule of Expenditures of Federal Awards only includes an amount, which represents administrative costs and additional advances for the year ended June 30, 2014.

During the fiscal year ended June 30, 2014, the University processed \$12,873,617 of new loans under the Federal Direct Loans, CFDA 84.268.

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
State of New Mexico
New Mexico Highlands University
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component units, of New Mexico Highlands University (the "University") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify deficiencies in the internal control, described in the schedule of findings and questioned costs as items 2003-017, 2014-004 2014-005, 2014-006, and 2014-007 that we consider to be a significant deficiencies.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed certain instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-001, 2014-001, 2014-002 and 2014-003.

University's Responses to the Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
November 3, 2014

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited New Mexico Highlands 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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

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

Opinion on Each Major Federal Program

In our opinion the University complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-008, 2014-009, 2014-010, 2014-011 and 2014-012. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 a 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

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

a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-008, 2014-009, 2014-010, 2014-11 and 2014-012 that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
November 3, 2014

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014**

Finding 2003-017(03-17) Budget overspending Repeated and Revised

Finding 2013-001(13-01) Due From Component Unit – Deficit Position Repeated and Revised

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2014**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster

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

Auditee qualified as low-risk auditee? X yes no

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

Section II - Financial Statement Findings

2003-017 (03-17) - Budget Overspending (Significant Deficiency)

Condition

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

Institutional support	\$ 205,252
Renewal and replacements	\$ 129,859
Retirement of indebtedness	\$ 182,602
Oper. & maint. Of plant	\$ 19,169

The University has overspent its approved budget for twelve consecutive years. This overspending has contributed to a decline from almost \$7 million in unrestricted net position in 2009 to less than \$1 million in unrestricted net position in 2014.

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 budget controls and processes at the University be strengthened to ensure that budgeted amounts are not overspent and budget adjustment requests are completed on a timely basis. Additionally, we recommend the University put into place a formal medium to long range plan to strengthen its overall financial condition.

Management Response

The University concurs with this finding. The Vice President of Finance and Administration (VPFA) office will coordinate amongst various departments and utilize historical data and analytics to improve the forecasting of expenditures.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

Section II - Financial Statement Findings

2013-001 (13-01) – Due From Component Unit - Deficit Net Position (finding that does not rise to the level of a significant deficiency)

Condition

The University's component unit, Highlands Stable Isotopes Corporation (HSI) continues to incur expenses with limited offsetting revenues which has resulted in a deficit net position of approximately \$1 million as of June 30, 2014. HSI's liability to the University has increased each year since HSI's inception.

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. When HSI was created, it was intended that HSI would become self-sufficient.

Cause

Insufficient revenues to cover expenditures.

Effect

HSI continues to need funds from the University to support current year operations. Should HSI be unable to repay the University, the University would have to absorb the cumulative losses of HSI approximately \$1 million as of June 30, 2014.

Recommendation

We recommend the University continue to monitor HSI's performance. If it appears likely that HSI is unable to pay the University, the University should reverse its due from component unit amount (approximately \$1 million as of June 30, 2014) and thus absorb the losses of HSI.

Management Response

The University acknowledges that there is a deficit net position with HSI; however, there have been significant developments in HSI that are noteworthy and offer future promise for the University. The Vice President of Finance and Administration's office will be working with HIS's governing board to continue moving forward with the objective of eliminating this deficit.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

Section II - Financial Statement Findings

2014-001 Code of Conduct (finding that does not rise to the level of a significant deficiency)

Condition

We noted the code of conduct had not been reviewed in the last four years.

Criteria

Per NMSA 10-16-11; codes of conduct shall be reviewed at least once every four years.

Effect

The University is not in compliance, NMSA 10-16-11.

Cause

The procedures in place to ensure compliance with the State Statute were not operating as designed.

Recommendation

We recommend that the University establish controls and procedures that will ensure the University is in compliance with State requirements.

Management Response

The University concurs with this finding. NMHU will include a review of this policy on an annual basis when presenting the operating budget in May of 2015. The Vice President of Finance and Administration's office will ensure that a review of the code of conduct will occur within the allotted time.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-002 Procurement (finding that does not rise to the level of a significant deficiency)

Condition

For one out of five vendors tested, we noted that a vendor provided services in the amount of \$66,842 prior to having a signed extended contract in place. It was also noted a purchase order was completed outside of the contract terms for one vendor tested. The purchase order was dated 5/29/2014 and the contract ended as of 10/27/2013.

Criteria

Not having a signed contract in place prior to services rendered, is a violation of the Procurement Code, NMSA 13-1-28.

Questioned Costs

\$96,687

Effect

The University is not in compliance, NMSA 13-1-28 and this could impact future state funding.

Cause

The procedures in place to ensure compliance with the State Procurement Code were not operating as designed.

Recommendation

We recommend that the University establish controls and procedures that will ensure the University is in compliance with State requirements.

Management Response

The University concurs with this finding. NMHU will review its current process and refine as necessary. NMHU's Director of Purchasing will ensure this occurs and that all contracts are reviewed on an annual basis.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-003 Fuel Cards (finding that does not rise to the level of a significant deficiency)

Condition

The Fuel card statement for April 2014 included purchase of food for \$104.64, which is an unauthorized use of the card.

Criteria

Section 6-5-9(1) NMSA 1978 govern the use of gasoline credit cards

Effect

The University is not in compliance with Section 6-5-9(1) related to the use of gasoline credit cards.

Cause

The Fuel card statement was not properly reviewed for unauthorized use.

Recommendation

We recommend that the University establish controls and procedures that will ensure the University is in compliance with the use of fuel cards.

Management Response

The University concurs with this finding. NMHU will review its current process and refine as necessary. NMHU's Facilities Services Accountant will review the WEX statement on a monthly basis to ensure that no unauthorized expenses occur.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-004 Disposition of Fixed Assets (Significant Deficiency)

Condition

The University performed an inventory of all capital assets during the fiscal year ended June 30, 2014. Upon completion, the University noted that there was roughly \$4 million of assets that could not be located. Included in this balance, were a number of computers. There is no indication that the University notified the NM State Auditor of the disposal of the equipment or properly erased the computer hard drives.

Criteria

Sections 13-6-1 through 13-6-2 NMSA 1978 and the procurement code govern the disposition of fixed assets.

Effect

The University is not in compliance with Sections 13-6-1 through 13-6-2 NMSA 1978 and the procurement code related to the disposal of fixed assets which could result in assets not being properly disposed of, including the potential for improper dissemination classified information.

Cause

Either equipment is disappearing from the University at an alarming rate or the inventory list is not properly updated when asset disposals actually occur.

Recommendation

We recommend that an annual inventory of all capital assets as required under the State Audit Rule is performed to ensure that all disposals are properly accounted for and reported to the State Auditor at least 30 days prior to disposal. Also a proper accounting of all computer disposals that reconciles total disposals to hard drives that are still on hand and certifications of destruction should be prepared.

Management Response

The University partly concurs with this finding. NMHU will review its current processes and refine as necessary. During fiscal year 2014, the University implemented an initial review to track its fixed assets, which had not occurred over several years resulting in NMHU's database not being updated. NMHU did follow appropriate procedures during these years for disposing of items, so it does not agree that \$4 million of equipment is unaccounted for. NMHU's Director of Purchasing will be ensuring that the database is updated on an annual basis to reflect the proper disposal of items in accordance with state statutes and procedures.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-005 Duplicate Fixed Assets (Significant Deficiency)

Condition

The University purchased and capitalized a new cooling unit for one of the buildings. The existing cooling unit was not removed from the accounting records and continues to be depreciated.

Criteria

Good accounting procedures require that all disposed fixed assets be removed from the accounting records with the appropriate gain or loss recorded as an addition to or deletion from income in the year of disposal. Additionally, the historic cost of the fixed assets and all depreciation accumulated through the date of disposal should be removed from the financial statements.

Effect

The balance of net fixed assets in the financial statements is overstated by the amount of duplicate assets included. In addition, depreciation expense is overstated each year for the amount of all assets previously disposed.

Cause

The cooling units are normally included in the cost of the building and depreciated over the life of the building. The actual useful life of the cooling units is significantly shorter than that of the building. When the cooling units are replaced, the items is added as a separate asset rather than charged to repairs and maintenance.

Recommendation

We recommend that University personnel review the fixed asset inventory and eliminate all duplicate assets. If the University believes that the cooling units should be depreciated over a shorter period, the cost of each unit should be tracked as a separate asset from the building.

Management Response

The University does not concur with the fixed assets and/or the depreciation being overstated, since equipment is accounted for under capital improvements and is depreciated as part of the building. Through FY13, the University depreciated buildings over a period of 25 years. The University has modified this practice and is now depreciating buildings over a period of 50 years. Through the recommendation of Moss Adams, the University will now record these items as equipment on fixed assets instead of capital improvements and depreciate them over a period of 12 years. The Unrestricted Funds Manager will also begin the review of Fixed Assets during the third quarter of each fiscal year.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-006 Disposal of Fixed Assets (Significant Deficiency)

Condition

The University performed an inventory of all capital assets during the fiscal year ended June 30, 2014. Upon completion, the University noted that there was roughly \$4 million of assets that could not be located. All of the assets were deemed by management to be fully depreciated. Accumulated depreciation in an amount equal to the historic cost of the disposed assets was removed from the financial statements. Upon closer inspection of the disposal detail, it appears that not all of the assets were fully depreciated and that a loss on disposal should have been recorded.

Criteria

Good accounting procedures require that all disposed fixed assets be removed from the accounting records with the appropriate gain or loss recorded as an addition to or deletion from income in the year of disposal.

Effect

The balance of net fixed assets in the financial statements is understated by the amount of the net book value of the assets that were not fully depreciated and the loss on disposal was understated. The University corrected the error prior to the issuance of the final financial statements.

Cause

Instead of reviewing the detail of the disposals, all assets were assumed to be fully depreciated.

Recommendation

Ensure asset disposals are properly recorded and that any gain or loss on disposal is adequately reflected in the accounting records.

Management Response

The University concurs with this finding. It will add to the year-end fixed asset review process by verifying the useful life on all fixed assets being deleted, adjusted, and depreciated for items that have not been fully depreciated. The Unrestricted Funds Manager will also begin the review of Fixed Assets during the third quarter of each fiscal year.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-007 Financial Close and Reporting – University Foundation (Significant Deficiency)

Condition

During the current year, there were approximately 6 journal entries after the final trial balance was provided to the auditors, some of which were significant dollar amounts, and accumulated to over \$3 million dollars in total.

Criteria

For the year-end financial close and reporting process to function well, accounts need to be adjusted timely, including a process to ensure that unusual transactions are recorded properly, timely and in accordance with Generally Accepted Accounting Principles.

Effect

Without timely reporting of transactions, there is an increased risk of error or fraud in the financial records.

Cause

The Foundation has not had adequate resources to develop well-established policies and procedures over financial close and reporting. Additionally, the Foundation has limited staffing resources to complete timely journal entries.

Recommendation

We recommend that the Foundation continue to develop policies and procedures to outline the requirements, timelines and responsibilities over the financial control and reporting process, obtain the necessary staffing to carry this out.

Management Response

The University concurs with the finding and will institute a more rigorous process at year-end. NMHU's Foundation Development Financial Officer will be ensuring that this review is exercised on an annual bases during the fourth quarter of each fiscal year.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

Section III - Federal Award Findings and Questioned Costs

2014-008 Student Financial Aid – Enrollment Reporting (Significant Deficiency/Non-Compliance)

Federal program information:

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

Condition

As part of our compliance testwork over National Student Loan Data System (NSLDS) Reporting, we selected a sample of 25 loans for enrollment reporting to the NSLDS. We noted 17 students who received loans were not reported to the NSLDS by the third party servicer (National Student Clearinghouse “Clearinghouse”) in a timely manner. Upon further examination, we noted that the Clearinghouse is not following up on exceptions on a timely manner. The University reviewed all of fiscal year 2014 and determined that a majority of the graduating students who received loans were not reported timely to NSLDS. An additional student who received a loan on February 14, 2014 was not reported to NSLDS by the third party servicer (Clearinghouse).

Criteria

Per 34 CFR section 674.16(j), the institution must report enrollment and loan status information, or any Title IV loan-related information required by the Secretary, to the Secretary by the deadline date established by the Secretary which is within 30 days of completing the enrollment reporting roster file.

Also, per the A-133 Compliance Requirements under Enrollment Reporting (5-3-41), institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

Questioned Costs

None

Effect

Failure to ensure certain loans were reported to NSLDS.

Cause

The Third Party Servicer (Clearinghouse) did not properly follow up the student’s loan information to NSLDS. This caused certain students to have student loan history reported late for the academic FY2013-2014 in the NSLDS database.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-008 Student Financial Aid – Enrollment Reporting (Significant Deficiency/Non-Compliance) (continued)

Recommendation

We recommend the University implement a reconciliation process for the total number of students loaded to its third party servicers (Clearinghouse) to the listing Clearinghouse uploaded to NSLDS. To properly implement this process, Clearinghouse will need to provide a detailed report/listing stating how many students were unsuccessfully uploaded to NSLDS and the timeframe in which those exceptions will be resolved.(withdraws and graduated).

Management Response

Financial Aid and Registrar's Offices have exercised due diligence in complying with the student status reporting requirement. Upon following up with NSLDS, it was confirmed that student status updates are being processed in a timely manner by the University; however, the issue exists at the National Student Clearinghouse. The University recognizes that it is ultimately required to ensure its third party servicer is also in compliance with the reporting timeline. Therefore, the University has established that within 3 business days of submission of student status files, the University will contact the Clearinghouse to ensure that the file is submitted to NSLDS and there are no errors. This will allow time for the error resolution to occur within the reporting timeline. The University will also utilize NSLDS to monitor any submissions that are on hold due to conflicting information/error resolution within the required timeframe. NMHU's Director of Financial Aid will be the ensuring this occurs on a timely basis.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-009 Student Financial Aid – Matching (Significant Deficiency/Non-Compliance)

Federal program information:

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

Condition

We noted the University did not meet the matching requirement of Institutional Capital Contribution (ICC) to Federal Capital Contributions (FCC) of 33%. The University's matching amount was 30% and therefore they should have matched an additional amount of \$125,600 in order to meet the 33%.

Criteria

Per CFR 34.674.8 subsection (ii) the ICC match must be equal to at least one-third of the FCC described in paragraph (a)(1) of this section in award year 1994-95 and succeeding award years.

Questioned Costs

None

Effect

The University did not meet the ICC requirement of 33%.

Cause

The University did not properly monitor the ICC's balance to ensure the federal matching requirement is being met.

Recommendation

We recommend the University implement a monitoring process for the matching requirement of the ICC to FCC required percentage

Management Response

The University concurs with the audit finding. A journal entry will be processed to meet the 33% matching requirement of its Institutional Capital Contribution (ICC). In addition, the University has added a process to the current procedure where student default assignments will be reported to the Department of Education. As the university receives information from UAS, it will process a journal entry each month to move funds from I&G to ICC. NMHU's Director of Financial Aid and Unrestricted Funds Manager will ensure this occurs on a timely basis.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-010 Suspension and Debarment (Significant Deficiency/Non-Compliance)

Federal program information:

Funding Agency: National Science Foundation
Title: Mathematical and Physical Sciences - NSF
CFDA Number: 47.049

Condition

One subrecipient tested out of a sample of 25 in Research and Development cluster of programs was not checked for suspension and debarment. In addition, the College does not have a process to ensure that subcontractors who receive federal funds over \$25,000 are verified annually against the Excluded Parties List System (EPLS).

Criteria

Per Cost Circular A-102, recipients shall establish procedures to provide for the effective use and/or dissemination of the list to assure that they do not make awards in violation of the nonprocurement debarment and suspension common rule.

Questioned Costs

Unknown

Effect

The program is not in compliance with grant requirements and could award contracts to suspended or debarred vendors, which could result in a loss of federal funding.

Cause

The University failed to implement proper policies and procedures.

Recommendation

We recommend the University develop and implement policies and procedures to ensure that funding is not awarded to suspended or debarred subrecipients.

Management Response

The University concurs with this audit finding. The University verifies suspension and debarment at the time it contracts with sub-recipients. The University has implemented a process that verifies suspension or debarment on an annual basis. NMHU's Restricted Funds Manager will be ensuring this occurs on a timely basis.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-011 Required Communication of Information (Significant Deficiency/ Non-Compliance)

Federal program information:

Funding Agency: National Science Foundation
Title: Mathematical and Physical Sciences - NSF
CFDA Number: 47.049

Condition

For one subrecipient tested out of a sample of 25 in the Research and Development cluster of programs there was no documentation showing that the University provided the appropriate award information, including the CFDA number, title and amount of the award, to the subrecipient or obtained the DUNS number from the subrecipient.

Criteria

Per OMB Circular A-133, pass-through entities shall properly identify federal award information and compliance requirements to all subrecipients and determine the eligibility of all subrecipients to receive subawards.

Questioned Costs

Unknown

Effect

The program is not in compliance with grant requirements and could result in the subrecipient reporting incorrect award information and/or contract subawards to ineligible subrecipients, which could result in a loss of federal funding.

Cause

The University failed to implement procedures to ensure that it is in compliance with the requirements of the Circular.

Recommendation

We recommend the University develop and implement policies and procedures to ensure that all subrecipient awards include the pertinent award information and the subrecipient's DUNS number within the actual agreement.

Management Response

The University concurs with this audit finding in that not all information required was listed on its Sub-recipient Commitment Form. The University has modified its current form and will be working with the Office of Institutional Research to incorporate the permanent changes to the Research Handbook and the Sub-recipient Commitment Form to comply with OBM Circular A133. The Office of Institutional Research will ensure this occurs during each fiscal year.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2014**

2014-012 Physical Location of Equipment Acquired Under Federal Awards (Significant Deficiency/ Non-Compliance)

Federal program information:

Funding Agency: National Science Foundation pass-through UNM

Title: Office of Cyberinfrastructure - NSF

CFDA Number: 47.080

Condition

One of four pieces of equipment purchased under federal awards in the Research and Development cluster of programs did not have a current physical location included in the inventory records.

Criteria

Per OMB Circular A-133, the University is required to maintain proper records for equipment acquired under federal award.

Questioned Costs

None

Effect

The program is not in compliance with grant requirements and could result in the temporary or permanent misplacement of equipment purchased with federal award funds.

Cause

The University failed to document the current physical location of the asset in its inventory records.

Recommendation

We recommend the University develop and implement policies and procedures to ensure that the inventory records include the current location of all capital assets. Ensure that the records are updated each time an asset is relocated.

Management Response

The University concurs that Central Receiving is to be notified when equipment is taken from the University to an external location. The University has implemented a process requiring all personnel to notify Central Receiving of equipment's new location when taken off University property. When equipment is returned to the University, Central Receiving is to be notified, and equipment is to be returned to its original location. NMHU's Director of Purchasing will ensure this occurs on a timely basis.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
Year Ended June 30, 2014**

The contents of this report were discussed in the exit conference held on November 3, 2014 with the following in attendance:

Representing New Mexico Highlands University:

Max Baca, Vice President of Finance and Administration
Jesus Baquera, Controller
Dominic Chavez, Unrestricted Funds Manager
Michael Saavedra, Director of Purchasing
Gayle Martinez, Restricted Funds Manager
Eileen Bentley, Budget Director
Donna Castro, Director of Human Resources
Eileen Sedillo, Financial Aid
Jesus L. Lopez, Regent

Representing State of New Mexico New Mexico Highlands University Foundation:

Darlene Chavez, Finance Director

Representing Highlands Stable Isotopes, Inc.:

Max Baca, President of Finance and Administration

Representing Moss Adams LLP:

Lisa Todd, CPA
Sandy Schwank, CPA



Financial Audit for Fiscal Year 2014