

New Mexico Highlands University Financial Audit

FY 2019



**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
PRESIDENT'S MESSAGE (UNAUDITED)**



Founded in 1893, New Mexico Highlands University is a multicultural university. Hispanic, Native American, and African American students comprise approximately 71.8% of the enrollment. Forty-three percent of our students are studying at the master's level in the Schools of Education, Social Work, and Business as well as in several programs 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.

After completing my first several years at Highlands University, we were able to address several major initiatives established by the board of regents. In addition to those, I also focused on campus life (via the Division of Student Affairs), Strategic Enrollment Management (the newest division here at HU), and a reengineer of Advancement. These three areas were not chosen randomly nor were they chosen because I thought they would be easy to improve. Quite the contrary. I chose them because, in my view, they held the most promise to address what I considered (and still consider) our most daunting challenge - moving from a historical reliance on state funding to a situation where we rely more on our own efforts to accrue revenue and remain vibrant and strong. That means - getting more students recruited and retained and improving our performance in private giving. New Mexico remains one of the states where state funding continues to support a large percentage of higher education funding, but the national trend is quite clear. For example, several states now receive less than 20% of their higher education funding from state government. Even though New Mexico devotes more than that (percentage-wise), the state trend is also clear---state funding is diminishing over time. Hence, my concerns.

I am rarely satisfied with performance (at least my own), but I am generally pleased with progress in the three areas of campus life, enrollment management, and advancement. All are trending in the right direction.

In 2018 –2019 academic year, we accomplished additional and important initiatives, including, the implementation of the new Master of Fine Arts Degree in Media Arts and Technology, the final development and implementation of a new Alternative Teacher Certification Program designed to fast track teacher licensure, a major renovation of the historic Rodgers Building, and many other positive and other important programs and initiatives.

American higher education has always done a great job educating students who come to university well prepared and able to meet the academic and other demands of university work. Students not among those groups have not fared as well...and that is still true today. For that reason, HU is at the very center of both the contemporary challenges and opportunities in the American academy and I am proud to lead and manage such an institution. At HU, we change lives every day and prepare our students for great jobs and careers and lives of deep meaning and purpose. The future at HU is challenging, no doubt, but it is also so fulfilling and important to our students and the maintenance of a free society.

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

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NEW MEXICO HIGHLANDS UNIVERSITY**

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

BOARD OF REGENTS AND PRINCIPAL OFFICERS

Board of Regents

| <u>Appointed Members:</u> | <u>Title:</u> | <u>Term Expires</u> |
|---------------------------|---------------------|---------------------|
| Leveo V. Sanchez | Chairman | December 31, 2020 |
| LouElla Marr-Montoya | Vice-Chair | December 31, 2019 |
| Frank Marchi | Secretary/Treasurer | December 31, 2022 |
| William E. "Bill" Garcia | Regent | December 31, 2024 |
| Rebekah Peoble | Student Regent | March 2020 |

Principal Administrative Officials

| | |
|----------------------|---|
| Dr. Sam Minner | President |
| Dr. Roxanne Gonzales | Provost/Vice President for Academic Affairs |
| Dr. Kimberly Blea | Dean of Students |
| Mr. Max Baca | Vice President for Finance & Administration |

Principal Financial Officials

| | |
|-------------------------|--|
| Stephanie Gonzales, CPA | Director of Finance & Budget / Comptroller |
| Adam Bustos | Director of Purchasing |
| Ryan Aragon | Student Accounts Receivable Manager |

FINANCIAL SECTION



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Albuquerque, NM 87104
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Independent Auditors' Report

Mr. Brian S. Colón, Esq.
New Mexico State Auditor
and
The Board of Regents
New Mexico Highlands University

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of New Mexico Highlands University (the University) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 aggregate discretely presented component units of the University, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended 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 to 10 and the pension schedules on pages 52 to 53 for the University's participation in the Educational Retirement Board Pension Plan 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. 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.

Emphasis of Matter

As discussed in Note 2, the financial statements of the University are intended to present the financial position, and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining information and the respective budgetary comparisons for the General Fund and the Major Special Revenue Fund that attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2019, and the changes in its financial position and its cash flows, where applicable for the year ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 and the budgetary comparisons. The accompanying Schedule of Individual deposit Accounts and Schedule of Joint Powers Agreements, and the Multi-Year Capital Projects Funded by Special and Severance Tax Capital Outlay Appropriations, as required by 2.2.2 NMAC and the Schedule of Expenditures of Federal awards as required by 2 US Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules required by 2.2.2 NMAC and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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, Schedule of Joint Powers Agreements, and the Multi-Year Capital Projects Funded by Special and Severance Tax Capital Outlay Appropriations, 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 October 24, 2019, on our consideration of the University's internal control over financial reporting and on our test 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.

Ricci & Company, LLC

Albuquerque, New Mexico
October 24, 2019

**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, 2019. 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 parts.

Report of Independent Auditors presents an unqualified opinion by our auditors from an independent certified public accounting firm (Ricci & Co., LLC) 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, 2019). 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, 2019). 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
STATE OF NEW MEXICO
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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, 2019). 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 readers 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, University Relations Director.

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

Financial Highlights

CONDENSED STATEMENT OF NET POSITION

| Net Position as of June 30, 2019 and 2018 (thousands) | | |
|--|--------------------|--------------------|
| | <u>2019</u> | <u>2018</u> |
| Assets: | | |
| Current assets | \$17,571 | \$17,884 |
| Restricted cash | 2,357 | 2,319 |
| Assets held by others | 2,442 | 2,350 |
| Due from component unit | - | - |
| Endowment investments | 4,931 | 4,596 |
| Capital assets, net of accum. depr. | <u>95,048</u> | <u>96,338</u> |
| Total assets | <u>122,349</u> | <u>123,487</u> |
| Deferred outflows | <u>22,980</u> | <u>30,143</u> |
| Liabilities: | | |
| Current liabilities | 9,998 | 10,802 |
| Non-current liabilities | 22,862 | 24,324 |
| Net pension & OPEB liabilities | <u>112,738</u> | <u>112,410</u> |
| Total liabilities | <u>145,598</u> | <u>147,536</u> |
| Deferred inflows | <u>11,105</u> | <u>8,509</u> |
| Net Position: | | |
| Invested in capital assets, net of debt | 71,064 | 71,213 |
| Restricted for nonexpendable | 9,742 | 9,738 |
| Restricted for expendable | 6,341 | 6,341 |
| Unrestricted | <u>(98,521)</u> | <u>(89,707)</u> |
| Total net position | <u>\$(11,374)</u> | <u>\$(2,415)</u> |

Discussion of Statement of Net Position

Current assets decreased 2% during the year. The ending balance of \$17.6 million consists primarily of cash/cash equivalents (\$9.6 million), receivables (\$7.6 million) and other (\$400k). 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
STATE OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

| Activities for the years ended June 30, 2019 and 2018 (thousands) | | |
|--|--------------------|--------------------|
| | <u>2019</u> | <u>2018</u> |
| Operating revenues: | | |
| Tuition and fees, net | \$16,646 | \$ 18,739 |
| Grants & contracts | 14,858 | 16,164 |
| Sales and services / other revenue | <u>4,519</u> | <u>3,892</u> |
| Total operating revenues | <u>36,023</u> | <u>38,795</u> |
| Operating expenses: | | |
| Instruction and general | 41,312 | 39,133 |
| Other operating expenses | 31,536 | 37,862 |
| Depreciation | <u>4,780</u> | <u>4,801</u> |
| Total operating expenses | <u>77,628</u> | <u>81,797</u> |
| Operating loss | <u>(41,605)</u> | <u>(43,002)</u> |
| Non-operating revenue: | | |
| State general fund appropriations | 30,136 | 29,091 |
| Interest and investment income | 1,053 | 880 |
| Capital appropriations | <u>2,382</u> | <u>1,007</u> |
| Total Non-operating revenue: | <u>33,571</u> | <u>30,978</u> |
| Income/(loss) before other revenue, expenses, gains, losses | <u>(10,135)</u> | <u>(13,032)</u> |
| Interest on indebtedness | (1,149) | (198) |
| Other | <u>(58)</u> | <u>124</u> |
| Total other | <u>(1,207)</u> | <u>(74)</u> |
| Decrease/increase in net position | (8,960) | <u>(12,099)</u> |
| Net position, beginning | (2,414) | 39,361 |
| Restatement | <u>-</u> | <u>(29,676)</u> |
| Net position, ending | <u>\$(11,374)</u> | <u>\$(2,414)</u> |

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

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

The University’s net position decreased by \$8.9 million during the year. Operating expenses (\$77.6 million) are subtracted from operating revenues (\$36 million), resulting in an “operating loss” (\$41.6 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. “(Loss) income before other revenue, expenses, gains and losses” was (\$10.1 million). \$2.3 million in capital appropriations revenues (federal and state funds designated for construction projects) resulted in a decrease in net position of (\$8.9 million)

The state appropriation for general funds for year ended June 30, 2019 was \$30.1 million as compared to state appropriation for year ended June 30, 2018 at \$29.1 million.

| Analysis of Tuition and Fees Revenue (thousands) | | | | |
|---|------------------------|------------------------|---------------------------------------|------|
| | <u>2019</u> | <u>2018</u> | <u>Increase (Decrease)</u> | |
| Tuition | \$13,248 | \$14,490 | (1,242) | -9% |
| Fees | <u>4,667</u> | <u>5,488</u> | <u>(821)</u> | -15% |
| Subtotal | 17,915 | 19,978 | (2,063) | -10% |
| Tuition discounts/allowance | <u>(1,269)</u> | <u>(1,239)</u> | (30) | 2% |
| Net | <u><u>\$16,646</u></u> | <u><u>\$18,739</u></u> | <u><u>(2093)</u></u> | -11% |

Tuition and fees, net of discounts and allowances, decreased by 10%. Tuition discounts and allowances are tracked individually by student and the annual expense increased by 2%.

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

CONDENSED STATEMENT OF CASH FLOWS

| Statement of Cash Flows for the years ended June 30, 2019 and 2018 (thousands) | | |
|--|-----------------|-----------------|
| | <u>2019</u> | <u>2018</u> |
| Cash flows from operating activities: | | |
| Net cash used by operating activities | \$(27,359) | \$(28,786) |
| Net cash provided by noncapital financing activities | 30,447 | 29,381 |
| Net cash flow provided by investment activities | 345 | 312 |
| Net cash used by capital & related financial activity | <u>(3,129)</u> | <u>(1,209)</u> |
| Net decrease in cash and cash equivalents | 304 | (302) |
| Restricted cash, beginning of year | 2,319 | 2,332 |
| Cash and cash equivalents, beginning of year | <u>9,346</u> | <u>9,635</u> |
| | <u>11,665</u> | <u>11,968</u> |
| Restricted cash, end of year | 2,356 | 2,319 |
| Cash and cash equivalents, end of year | <u>\$ 9,613</u> | <u>\$ 9,346</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 \$303 thousand net increase during the year, resulting in an ending cash balance of \$9,613 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.

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2019**

| | Primary Institution | Stable Isotopes Corporation | Highlands Foundation |
|--|------------------------|--------------------------------|-------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | | | |
| Cash in bank | \$ 9,596,701 | - | \$ 692,958 |
| Petty cash | 15,895 | - | - |
| Total cash and cash equivalents | 9,612,596 | - | 692,958 |
| Student accounts receivable | | | |
| (net of an allowance of \$6,574,213) | 3,219,693 | - | - |
| Grants receivable | 1,744,085 | - | - |
| Other receivables | 2,631,813 | - | 7,629 |
| Pledges receivable | - | - | 120,753 |
| Inventories | 29,313 | - | - |
| Prepaid assets | 93,074 | - | 3,336 |
| Short-term investments | 240,122 | - | - |
| Total current assets | 17,570,696 | - | 824,676 |
| Noncurrent Assets | | | |
| Restricted Cash | 2,356,792 | - | 520,764 |
| Pledges receivable | - | - | 44,266 |
| Life insurance | - | - | 83,934 |
| Assets held by others | 2,441,940 | - | - |
| Due from component unit | | | |
| (net of an allowance of \$1,000,000) | - | - | - |
| Investments | 4,930,720 | - | 8,752,069 |
| Capital assets, net of accumulated depreciaton | 95,048,816 | - | 7,087,465 |
| Total noncurrent assets | 104,778,268 | - | 16,488,498 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources | | | |
| related to pensions | 22,509,705 | - | - |
| Deferred outflows of resources | | | |
| related to pensions OPEB liabilities | 470,722 | - | - |
| Total deferred outflows of resources | 22,980,427 | - | - |
| Total assets and deferred outflows of resources | \$ 145,329,391 | - | \$ 17,313,174 |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2019**

| | Primary Institution | Stable Isotopes Corporation | Highlands Foundation |
|--|------------------------|--------------------------------|-------------------------|
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 3,870,480 | - | \$ 17,708 |
| Accrued compensated absences | 947,544 | - | - |
| Unearned revenue | 3,813,394 | - | - |
| Accrued interest payable | 187,038 | - | 1,841 |
| Bonds payable-current | 1,180,000 | - | - |
| Notes payable-current | - | - | 216,735 |
| Total current liabilities | <u>9,998,456</u> | <u>-</u> | <u>236,284</u> |
| Noncurrent Liabilities | | | |
| Accrued compensated absences | 57,386 | - | - |
| Due to university | - | - | - |
| Assets held for others | - | - | 2,441,940 |
| Bonds payable long-term portion | 22,805,000 | - | - |
| Notes payable-long term portion | - | - | 854,203 |
| Net pension liability | 89,219,467 | - | - |
| Net OPEB liability | 23,518,077 | - | - |
| Total non-current liabilities | <u>135,599,930</u> | <u>-</u> | <u>3,296,143</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources related to pensions | 3,658,914 | - | - |
| Deferred inflows of resources related to pensions OPEB liability | 7,445,987 | - | - |
| Total deferred outflows of resources | <u>11,104,901</u> | <u>-</u> | <u>-</u> |
| Total liabilities and deferred inflows of resources | <u>156,703,287</u> | <u>-</u> | <u>3,532,427</u> |
| NET POSITION | | | |
| Investment in capital assets net of related debt | 71,063,816 | - | 6,016,527 |
| Restricted for | | | |
| Nonexpendable | | | |
| Restricted for scholarships and grants | 9,742,325 | - | 5,015,279 |
| Expendable | | | |
| Restricted for scholarships and grants | - | - | 1,245,155 |
| Loans | 415,456 | - | - |
| Capital projects | 2,024,103 | - | - |
| Debt service | 3,901,840 | - | - |
| Unrestricted | (98,521,436) | - | 1,503,786 |
| Total net position (deficit) | <u>(11,373,896)</u> | <u>-</u> | <u>13,780,747</u> |
| Total net position, liabilities and deferred inflows of resources | <u>\$ 145,329,391</u> | <u>-</u> | <u>\$ 17,313,174</u> |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year ended JUNE 30, 2019**

| | Primary Institution | Stable Corporation | Highlands Foundation |
|---|------------------------|-----------------------|-------------------------|
| OPERATING REVENUES | | | |
| Tuition and fees | \$ 17,914,898 | 69,885 | \$ - |
| Tuition discounts and allowances | (1,269,170) | - | - |
| Total operating revenues | <u>16,645,728</u> | <u>69,885</u> | <u>-</u> |
| Federal grants and contracts | 10,202,579 | - | - |
| State and local grants and contracts | 1,534,192 | - | - |
| Private grants and contracts | 3,121,215 | - | - |
| Sales and services of auxiliary enterprises | 3,544,263 | - | - |
| Contributions | - | - | 1,065,282 |
| Other | 975,280 | - | 370,896 |
| Total operating revenues | <u>36,023,257</u> | <u>69,885</u> | <u>1,436,178</u> |
| EXPENSES | | | |
| Instruction and general | | | |
| Instruction | 24,630,259 | - | - |
| Academic support | 2,151,427 | - | - |
| Student services | 4,004,092 | - | - |
| Institutional support | 6,075,869 | - | - |
| Operations and maintenance support | 4,450,727 | - | - |
| | <u>41,312,374</u> | <u>-</u> | <u>-</u> |
| Student social/cultural development | 1,513,836 | - | - |
| Research | 1,212,177 | - | - |
| Public service | 5,977,578 | - | - |
| Internal Services | 54,830 | - | - |
| Student aid grants and stipends | 6,988,075 | - | 179,125 |
| Auxiliary enterprises | 2,778,842 | - | - |
| Athletics | 2,825,708 | - | - |
| Renewals and replacement | 97,515 | - | - |
| Other expenditures | - | 69,885 | 872,671 |
| Pension expense | 10,877,718 | - | - |
| OPEB income | (791,312) | - | - |
| Depreciation | 4,780,902 | - | 57,698 |
| Total operating expenses | <u>77,628,243</u> | <u>69,885</u> | <u>1,109,494</u> |
| Operating Gain (loss) income | <u>\$ (41,604,986)</u> | <u>-</u> | <u>\$ 326,684</u> |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION (CONTINUED)
Year ended JUNE 30, 2019**

| | Primary Institution | Stable Corporation | Highlands Foundation |
|--|------------------------|-----------------------|-------------------------|
| Non operating revenues (expenses) | | | |
| State appropriations | \$ 30,136,300 | - | \$ - |
| State land, permanent fund and investment income | 311,183 | - | - |
| Interest and investment income | 741,939 | - | 460,124 |
| Unrealized gain on fair value adjustment | - | - | - |
| Other | 280,800 | - | (7,550) |
| Net non-operating revenues | <u>31,470,222</u> | <u>-</u> | <u>452,574</u> |
| (Loss) income before other revenues, expenses, gains and losses | <u>(10,134,764)</u> | <u>-</u> | <u>779,258</u> |
| Other revenues (expenses) and capital items | | | |
| Capital appropriations | 2,382,019 | - | - |
| Transfer in from Auxilliary | - | | |
| Interest on indebtedness | (1,148,678) | - | - |
| Endowment income (expense) | (57,575) | - | - |
| Total other revenues (expenses) and capital items | <u>1,175,766</u> | <u>-</u> | <u>-</u> |
| (Decrease) increase in Net Position | <u>(8,958,998)</u> | <u>-</u> | <u>779,258</u> |
| Net Position (deficit) | | | |
| Net Position (deficit) - beginning of year - | (2,414,898) | - | 13,001,489 |
| Net Position (deficit), end of year | <u>\$ (11,373,896)</u> | <u>-</u> | <u>\$ 13,780,747</u> |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2019**

| | Primary Institution | Stable Corporation | Highlands Foundation |
|--|------------------------|-----------------------|-------------------------|
| Cash Flows From Operating Activities | | | |
| Tuition and fees | \$ 16,084,449 | - | \$ - |
| Grants and contracts | 16,133,563 | - | - |
| Sales and services | 2,230,731 | 69,885 | - |
| Other operating receipts | 883,509 | - | 1,382,599 |
| Payments to employees for salaries and benefits | (37,010,610) | - | - |
| Payments to suppliers | (25,680,753) | (69,885) | - |
| Payments to others | - | - | (728,708) |
| Net cash provided by (used in) operating activities | (27,359,111) | - | 653,891 |
| Cash Flows From Noncapital Financing Activities | | | |
| State appropriations | 30,136,300 | - | - |
| Land and permanent fund | 311,183 | - | - |
| Net cash provided by noncapital financing activities | 30,447,483 | - | - |
| Cash Flows From Investment Activities | | | |
| Investment income | 401,977 | - | 347,473 |
| Purchase of capital assets | - | - | (141,649) |
| Purchases of investments | - | - | (756,055) |
| Proceeds from sale of artwork | - | - | 2,467 |
| Change in cash surrender value of life insurance | - | - | (1,316) |
| Endowment expense | (57,575) | - | - |
| Net cash provided by (used in) investment activities | 344,402 | - | (549,080) |
| Cash Flows From Capital and Related Financing Activities | | | |
| State appropriations for capital projects | 2,382,019 | - | - |
| Cash paid for capital assets | (3,210,651) | - | - |
| In kind fixed asset donation | - | - | - |
| Repayments of bonds and notes payable | (1,151,876) | - | (207,836) |
| Transfer in from Auxilliary | - | - | - |
| Interest payment on bonds | (1,148,678) | - | - |
| Net cash used by capital and related financing activities | (3,129,186) | - | (207,836) |
| Net increase/(decrease) in cash and cash equivalents | 303,588 | - | (103,025) |
| Restricted cash, beginning of year | 2,319,346 | - | 572,078 |
| Cash and cash equivalents, beginning of year | 9,346,454 | - | 744,669 |
| | 11,665,800 | - | 1,316,747 |
| Restricted cash, end of year | 2,356,792 | - | 520,764 |
| Cash and cash equivalents, end of year | \$ 9,612,596 | - | \$ 692,958 |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)
Year ended June 30, 2019**

| | Primary Institution | Stable Corporation | Highlands Foundation |
|--|------------------------|-----------------------|-------------------------|
| Reconciliation of operating (loss) income to net cash (used) provided by operating activities | | | |
| Operating (loss) income | \$ (41,604,986) | - | \$ 439,335 |
| Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities | | | |
| Depreciation expense | 4,780,902 | - | 57,698 |
| Bad debt expense | - | - | - |
| Pension expense | 10,086,406 | - | - |
| Unrealized gain on fair value adjustment | - | - | - |
| Investment fees | - | - | - |
| Loss on sale of art | - | - | - |
| Donated artwork | - | - | - |
| Other | - | - | - |
| Changes in assets and liabilities | | | |
| Receivables | (1,329) | - | 62,325 |
| Inventories | 584,535 | - | - |
| Other assets | 1,296 | - | 1 |
| Due from component unit | - | - | - |
| Accounts payable and accrued expenses | (461,287) | - | 2,761 |
| Assets held for others | (91,771) | - | 91,771 |
| Deferred revenue | (597,905) | - | - |
| Due to primary government | - | - | - |
| Compensated absences | (54,972) | - | - |
| Net cash provided by (used in) operating activities | \$ (27,359,111) | - | \$ 653,891 |

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creation and Purposed Entity

New Mexico Highlands University (the 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. Grant revenues are recognized as revenue after all eligibility requirements have been met.

Basis of Presentation and Financial Reporting Entity

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Financial Reporting Entity (Continued)

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

New Mexico Highlands Foundation, Inc. (Foundation)

The Foundation was organized as a not-for-profit New Mexico corporation under Section 501(c) (3) of the Internal Revenue Code. The Foundation receives support from contributions, earnings on investments and rental of real estate. The Foundation does 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 was granted Section 501 (c) (3) of the Internal Revenue Code of 1986 statutes in September of 2018. 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.

Estimates

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates (Continued)

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

Procedures for Approval of Operating Budgets

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

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, 2019, (the "schedule") are 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 budget basis, but not on the basis required by generally accepted accounting principles (GAAP). Depreciation expense, scholarship allowance, Perkins Loans/Endowment Scholarship and Endowment/Agency expenditures are GAAP requirements not included on the budget basis submitted to HED.

Cash and Cash Equivalents

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The University implemented Governmental Accounting Standard No. 72, *Fair Value Measurements and Application*. This standard generally requires investments to be measured at fair value. The statement also requires the disclosures in relation to fair value measurements, the fair value hierarchy and valuation techniques. The University also early adopted Governmental Accounting Standards No. 79, *Certain External Investment Pools and Pool Participants* conforming to the early adoption of the standard by the State Treasurer. This standard allows the State Treasurer and Pool Participants to report qualifying short term investments at amortized cost rather than adjusting such assets to fair value each reporting period. Accordingly, the short-term investments in the State Treasurer's Local Government Investment Pool (LGIP) are reported at amortized cost, which approximates fair value. The University's investment assets include endowments and assets held by others in the Foundation. All investments are measured at fair value.

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.

Unearned Revenue

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 2019 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2019. Unearned revenues also include amounts received from grant and contract sponsors that have not been earned.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Net of Accumulated Depreciation

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value.

For equipment (including software), the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University does not capitalize historical treasures or works of art.

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.

Accrued 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Plan (ERP) and additions

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Liabilities (Continued)

Pensions (continued)

to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

The University's net position is 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 consists 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. The amount of net position restricted by enabling legislation is \$0 at June 30, 2019.

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 represents 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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Position (Continued)

University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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

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

Classification of Revenue

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.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Expenses (Continued)

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.

NOTE 2. CASH AND CASH EQUIVALENTS

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.

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

| | New Mexico Highlands University | Component NMHU Foundation |
|--|---------------------------------------|---------------------------------|
| | <u> </u> | <u> </u> |
| Petty cash | \$ 15,895 | \$ - |
| Bank deposits | 9,596,701 | - |
| Cash and equivalents | <u>9,612,596</u> | <u>-</u> |
| State treasurer local government investment pool | <u>240,122</u> | <u>-</u> |
| Total | <u><u>\$ 9,852,718</u></u> | <u><u>\$ -</u></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. Collateral requirements may be greater depending on the specific bank holding public funds.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk (Continued)

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, 2019, \$0 of the University's bank balance of \$10,379,026 was exposed to custodial credit risk.

Credit Risk

The University has money market funds and investments in the State Treasurer Local Government Investment Pool that are considered cash. As of June 30, 2019, 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.

State Treasurer Local Government Investment Pool (LGIP)

As of June 30, 2019, the State Treasurer Investment Pool was paying the University 2.707 percent per annum. The interest rate is determined by the State Treasurer.

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 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.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019**

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

State Treasurer Local Government Investment Pool (LGIP) (Continued)

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 was invested; and participation is voluntary. The rating of the investments is AAAM by Standard & Poor's and the weighted average maturity is 35 days at reset WAM(R) and 112 days at final WAM(F).

NOTE 3. GRANTS RECEIVABLE

As of June 30, 2019, grants receivables consisted of the following:

| | |
|--------------------------------|----------------------------|
| Federal grants | \$ 1,329,660 |
| State grants | 110,582 |
| Private grants | 303,843 |
| Total grants receivable | <u><u>\$ 1,744,085</u></u> |

NOTE 4. OTHER RECEIVABLES

Other Receivables as of June 30, 2019, consisted of the following:

| | New Mexico Highlands University | NMHU Foundation |
|------------------------------|---------------------------------------|--------------------------|
| Perkins loan receivable | \$ 345,232 | \$ - |
| Due from state of new mexico | 1,659,048 | - |
| Other | 627,533 | 120,753 |
| Other receivables | <u><u>\$ 2,631,813</u></u> | <u><u>\$ 120,753</u></u> |

The Due from State of New Mexico consists of amount due for capital projects as of June 30, 2019.

NOTE 5. INVENTORIES

Inventories as of June 30, 2019, consisted of the following:

| | |
|------------------------|-------------------------|
| Golf course | \$ 29,313 |
| Total inventory | <u><u>\$ 29,313</u></u> |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 6. INVESTMENTS

The University's investments are held at the State Investment Council. The University's monies are invested in accordance with 6-8-9 NMSA 1978. The State Investment Council issues a separate, publicly available financial report that includes financial statements and required supplementary information.

The Foundation has no limitations on the types of investments or deposits it can make within the scope of its investment policy.

At June 30, 2019, investments of the University and its component units are summarized as follows:

| | New Mexico Highlands University | Component Unit NMHU Foundation |
|---------------------------|---------------------------------------|---|
| Cash & Money Market Funds | \$ - | \$ 121,098 |
| Mutual funds | - | 3,123,837 |
| Common stocks | 3,709,404 | 3,504,108 |
| Fixed Income | - | 1,003,026 |
| U.S. corporate bonds | 1,221,316 | - |
| Certificate of deposit | - | 1,000,000 |
| Other | - | - |
| Total investments | <u>\$ 4,930,720</u> | <u>\$ 8,752,069</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. University bond holdings are held by the State Investment Council (SIC). Please refer to the SIC's separately issued financial statements for complete disclosures on credit risk.

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NOTE 6. INVESTMENTS (CONTINUED)

Foundation Interest Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2019, the Foundation had the following investments subject to interest rate risk.

| | <u>Maturities</u> | <u>Fair Value</u> |
|------------------------------------|---------------------|-------------------|
| US obligations treasury and agency | 8/31/20 - 02/15/49 | \$ <u>642,598</u> |
| US corporate bonds | 09/15/23 - 08/08/46 | \$ <u>360,428</u> |

Foundation Credit Risk (Continued)

The Foundation does not have a policy that manages its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2019, the Foundation had the following investments subject to investment rate risk:

| | <u>Rating</u> | <u>Fair Value</u> |
|-------------------------|---------------|-------------------|
| U.S. Agency Obligations | AA+ | \$642,598 |
| U.S. Corporate Bonds | AA+/BBB+ | \$360,428 |

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 and the Foundation supports vital scholarship and other programs from earning of its endowment. These programs are in concert with provisions established by donors of the endowment.

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase or decrease 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 Prudent Management of Institutional Funds Act. (UPMIFA) (Chapter 46, Article 9A, NMSA 1978). During the current year, donor-restricted endowments had net appreciation of \$141,143 and investment income of \$263,541.

Both the University and the Foundation hold nonexpendable endowments that generate income available for authorization for expenditure by a governing board. The amount available at June 30, 2019 is \$8,752,069 at the Foundation and \$4,930,720 at the University.

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NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 7. FAIR VALUE OF INVESTMENTS

U.S. generally accepted accounting principles establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2019.

Investments held in cash and cash equivalents, certificates of deposit, and money market funds were valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

Investments in common stock, mutual funds, and debt securities are valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of

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NOTE 7. FAIR VALUE OF INVESTMENTS (CONTINUED)

different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table represents the fair value measurements of the assets and liabilities at June 30, 2019:

| | Fair Value | Foundation Fair Value Measurements Using | | |
|-----------------------------|---------------------|---|---|--|
| | | Quoted Prices In Active Markets for Identical (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservab Inputs (Level 3) |
| At June 30, 2019 | | | | |
| Common stock | \$ 3,504,108 | 3,504,108 | - | \$ - |
| Cash and money market funds | 121,098 | 121,098 | - | - |
| Fixed Income | 1,003,026 | 1,003,026 | - | - |
| Certificates of deposit | 1,000,000 | 1,000,000 | - | - |
| U.S. corporate bonds | - | - | - | - |
| Mutual funds | 3,123,837 | 3,123,837 | - | - |
| Other | - | - | - | - |
| Total | \$ 8,752,069 | 8,752,069 | - | \$ - |

| | Fair Value | University Fair Value Measurements Using | | |
|----------------------|---------------------|---|---|--|
| | | Quoted Prices In Active Markets for Identical (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservab Inputs (Level 3) |
| At June 30, 2019 | | | | |
| Common stock | \$ 3,709,404 | 3,469,091 | - | \$ - |
| U.S. corporate bonds | 1,221,316 | - | 1,126,811 | - |
| Total | \$ 4,930,720 | 3,469,091 | 1,126,811 | \$ - |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 8. ASSETS HELD BY OTHERS

As of June 30, 2019, assets held by others and restricted cash consist of the following:

| | <u>University</u> | <u>Foundation</u> |
|---|---------------------|-------------------|
| Foundation endowment | \$ 2,441,940 | \$ - |
| Debt service reserves held in restricted cash | 2,356,792 | 502,074 |
| | <u>\$ 4,798,732</u> | <u>\$ 502,074</u> |

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NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 9. CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended June 30, 2019.

| | Balance 30-Jun-18 | Transfers | Retirements | Balance June 30, 2019 |
|---|-----------------------|------------------|------------------|--------------------------|
| Capital assets not being depreciated | | | | |
| Land and permanent fund | \$ 3,279,414 | - | - | \$ 3,279,414 |
| Artwork | 688,223 | - | - | 969,023 |
| Patents | 73,686 | - | - | 73,686 |
| Construction-in progress | 522,481 | (190,455) | - | 2,516,497 |
| Total capital assets not being depreciated | \$ 4,563,804 | (190,455) | - | \$ 6,838,620 |
| Other capital assets | | | | |
| Land improvements | \$ 35,502,109 | 33,681 | - | \$ 35,835,707 |
| Buildings | 132,470,540 | - | - | 132,470,540 |
| Furniture, fixtures and equipment | 10,261,730 | 156,774 | (99,697) | 10,786,337 |
| Library materials | 10,065,494 | - | (356,277) | 9,967,950 |
| Total other capital assets | \$ 188,299,873 | 190,455 | (455,974) | \$ 189,060,534 |
| Less accumulated depreciation | | | | |
| Capital and land improvements | \$ (18,791,423) | - | - | \$ (20,989,760) |
| Buildings | (59,585,217) | - | - | (61,622,061) |
| Furniture, fixtures and equipment | (9,259,908) | - | 99,697 | (9,494,905) |
| Library materials | (8,888,862) | - | 356,277 | (8,743,612) |
| Total accumulated depreciation other capital assets, net | (96,525,410) | - | 455,974 | (100,850,338) |
| Capital assets summary | | | | |
| Capital assets not being depreciated | \$ 4,563,804 | (190,455) | - | \$ 6,838,620 |
| Other capital assets | 188,299,873 | 190,455 | (455,974) | 189,060,534 |
| Total cost of capital assets | 192,863,677 | - | (455,974) | 195,899,154 |
| Less accumulated depreciation | (96,525,410) | - | 455,974 | (100,850,338) |
| Capital assets, net | \$ 96,338,267 | - | - | \$ 95,048,816 |

Depreciation expense for the year totaled \$4,780,902.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 9. CAPITAL ASSETS (CONTINUED)

| | Balance June 30, 2018 | Additions | Deletions | Balance June 30, 2019 |
|---|--------------------------|----------------|----------------|--------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 2,425,341 | - | - | \$ 2,425,341 |
| Artwork | 3,489,455 | 141,649 | (7,550) | 3,623,554 |
| Total capital assets not being depreciated | <u>5,914,796</u> | <u>141,649</u> | <u>(7,550)</u> | <u>6,048,895</u> |
| Capital assets being depreciated | | | | |
| Buildings held for lease to university | 2,250,237 | - | - | 2,250,237 |
| Less accumulated depreciation | | | | |
| Buildings | (1,153,969) | (57,698) | - | (1,211,667) |
| Other capital assets, net | <u>\$ 7,011,064</u> | <u>83,951</u> | <u>(7,550)</u> | <u>\$ 7,087,465</u> |
| Capital assets summary: | | | | |
| Capital assets not being depreciated | 5,914,796 | - | - | 6,048,895 |
| Other capital assets, at cost | 2,250,237 | - | - | 2,250,237 |
| Total cost of capital assets | 8,165,033 | - | - | 8,299,132 |
| Accumulated depreciation | (1,153,969) | - | - | (1,211,667) |
| Capital assets, net | <u>\$ 7,011,064</u> | <u>-</u> | <u>-</u> | <u>\$ 7,087,465</u> |

New Mexico Highlands University Foundation, Inc.

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

NOTE 10. ACCOUNTS PAYABLE/ACCRUED AND OTHER LIABILITIES

The \$3,870,480 amount consists of \$1,349,569 of accounts payable, and \$2,520,911 of accrued salaries and related taxes and benefits payable.

Discretely Presented Component Unit – Foundation
\$17,708 of accounts payables, and \$1,841 of accrued interest liabilities.

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NEW MEXICO HIGHLANDS UNIVERSITY
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June 30, 2019**

NOTE 11. LONG-TERM LIABILITIES

| | Balance June 30, 2018 | Additions | Deletions | Balance June 30, 2019 | Amount Due Within One Year |
|---------------------------------|--------------------------|-----------|-------------|--------------------------|----------------------------------|
| Bonds payable | \$ 25,125,000 | - | (1,140,000) | 23,985,000 | \$ 1,180,000 |
| Accrued compensated balances | \$ 1,059,902 | 552,889 | (607,861) | 1,004,930 | \$ 947,544 |

New Mexico Highlands University Foundation, Inc.

Long-term liability activity for the year ended June 30, 2019 is as follows:

| | Balance June 30, 2018 | Additions | Deletions | Balance June 30, 2019 | Amount Due Within One Year |
|---------------|--------------------------|-----------|-----------|--------------------------|----------------------------------|
| Notes payable | \$ 1,278,774 | - | (207,836) | 1,070,938 | \$ 216,735 |

NOTE 12. BONDS PAYABLE AND NOTES PAYABLE

| | |
|--|----------------------|
| Systems refunding revenue bonds services, 2012, issued November 1, 2012, with interest ranging from .93% to 4.26% - final maturity 2034. | \$ 14,265,000 |
| Systems refunding revenue bonds services, 2009A issued October 15, 2009, with interest ranging from 3.00% to 4.50% - final maturity 2021. | 490,000 |
| Systems refunding revenue bonds services, 2009B, issued October 15, 2009 with interest ranging from 5.32% to 6.07% - final maturity 2035. | 9,230,000 |
| Total bonds payable | 23,985,000 |
| Less amounts due within one year | (1,180,000) |
| Long term bonds payable | <u>\$ 22,805,000</u> |

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NOTE 12. BONDS PAYABLE AND NOTES PAYABLE (CONTINUED)

Debt service requirements for future fiscal years are as follows:

| Fiscal Year Ending June 30, 2019 | Principal | Interest | Total Debt Service |
|-------------------------------------|----------------------|------------------|-----------------------|
| 2020 | \$ 1,670,000 | 1,059,677 | \$ 2,729,677 |
| 2021 | 1,245,000 | 1,035,879 | 2,280,879 |
| 2022 | 1,280,000 | 982,681 | 2,262,681 |
| 2023-2027 | 7,150,000 | 3,992,098 | 11,142,098 |
| 2028-2032 | 8,660,000 | 2,099,697 | 10,759,697 |
| 2033-2034 | 3,980,000 | 201,140 | 4,181,140 |
| | <u>\$ 23,985,000</u> | <u>9,371,172</u> | <u>\$ 33,356,172</u> |

The Foundation has an additional 6% notes payable to a bank related to its Rio Rancho land and building. The loan is due in monthly installments of \$4,620 through December 2022, at which time the remaining balance is due. The terms of the note include a due on demand clause. Interest expense for the year totaled \$55,915. The note is secured with building and land.

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

| Fiscal Year Ending June 30, 2019 | Principal | Interest | Total Debt Service |
|-------------------------------------|---------------------|---------------|-----------------------|
| 2020 | \$ 224,962 | 38,630 | \$ 263,592 |
| 2021 | 234,274 | 29,318 | 263,592 |
| 2022 | 33,658 | 11,400 | 45,058 |
| 2023 | 578,044 | - | 578,044 |
| | <u>\$ 1,070,938</u> | <u>79,348</u> | <u>\$ 1,150,286</u> |

**STATE OF NEW MEXICO
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June 30, 2019**

NOTE 13. UNEARNED REVENUE

As of June 30, 2019, unearned revenue consisted of the following:

| | |
|---------------------|---------------------|
| Grants and contract | \$ 505,896 |
| Tuition | 1,320,123 |
| Housing/meal plan | 311,119 |
| Other | 1,676,256 |
| Total | \$ 3,813,394 |

NOTE 14. RISK MANAGEMENT

State Risk Management Pool

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

1. Liabilities

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

2. Property

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

There have been no uninsured losses in the last 3 years.

The Foundation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. The Foundation is insured through a private carrier for business and property risk and for director and officer liability insurance. There have been no significant reductions in coverage from the prior years and settlements have not exceeded coverage in recent years.

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NOTE 15. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

General Information about the Pension Plan

Plan Description

The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at https://www.nmerb.org/Annual_reports.html.

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended. The Plan is a pension trust fund of the State of New Mexico. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined in Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Pension Benefit

A member's retirement benefit is determined by a formula which includes three component parts: 1) the member's final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan Provisions for Retirement Eligibility

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

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NOTE 15. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Summary of Plan Provisions for Retirement Eligibility (Continued)

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member's age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

- The member's minimum age is 55 and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits.
- The member's age is 67 and has earned 5 or more years of service credit.

Forms of Payment

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options

The Plan has three benefit options available.

- **Option A – Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B – Joint 100% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

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NOTE 15. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Benefit Options (Continued)

- **Option C – Joint 50% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

Disability Benefit

An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found totally disabled. The disability benefit is equal to 2% of the member's Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

Cost of Living Adjustment (COLA)

All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.5%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.7%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

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NOTE 15. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Refund of Contributions

Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year

Alternative Retirement Plan

Effective October 1991, the New Mexico legislature established an Alternative Retirement Plan (ARP) through the enactment of ERA Sections 22-11-47 through 52 NMSA 1978 to provide eligible employees an election to establish an alternative retirement investment plan. In contrast to the defined benefit plan administered by NMERB, the ARP is a defined contribution plan. NMERB is the trustee of the ARP which is administered by two third-party contractors for NMERB. The two administrators approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association (TIAA) and Fidelity Investments.

These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP. The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP and have certain discretionary authority to decide matters under the ARP. As the ARP trustee NMERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

Eligibility

Certain employees of the University of New Mexico, New Mexico State University, New Mexico Institute of Mining and Technology, New Mexico Highlands University, Eastern New Mexico University, Western New Mexico University, Central New Mexico Community College, Clovis Community College, Luna Community College, Mesalands Community College, New Mexico Junior College, Northern New Mexico College, San Juan College and Santa Fe Community College are eligible to make an election to participate within ninety days of employment. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan.

Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation.

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NOTE 15. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Form of Payment

Retirement, death, and other benefits are based upon contributions made and earnings accumulated on those contributions, in accordance with the terms of the applicable vendor contracts and Internal Revenue Service Code. Retirement benefits shall, at the option of the employee, be paid in the form of:

- A lifetime income, if held in an annuity contract,
- Payments for a term of years, or
- A single-sum cash payment.

ARP retirement, death, and other benefits, including disability benefits, cannot be paid from the funds administered by NMERB.

ARP Contributions - For the year ended June 30, 2018, colleges and universities contributed 10.90% of participating employees' gross salary to the ARP vendor on behalf of the participant, and 3% of the employees' gross salary to NMERB. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP vendors.

Employees participating in the ARP do not accrue rights to benefits in the defined benefit pension plan based on the 3% contributions to the Plan.

Employer contributions reported in the Statement of Changes in Fiduciary Net Position include amounts remitted on behalf of both the ARP defined contribution plan and the defined benefit plan. The 3% contribution remitted for fiscal years ended June 30, 2019 and 2018 were \$102,148 and \$97,618 respectively.

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NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 15. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Contributions. For the fiscal years ended June 30, 2019 and 2018 educational employers contributed to the Plan based on the following rate schedule.

| <u>Fiscal Year</u> | <u>Date Range</u> | <u>Wage Category</u> | <u>Member Rate</u> | <u>Employer Rate</u> | <u>Combined Rate</u> | <u>Increase Over Prior Year</u> |
|--------------------|-------------------|----------------------|--------------------|----------------------|----------------------|---------------------------------|
| 2019 | 7-1-18 to 6-30-19 | Over \$20K | 10.70% | 13.90% | 24.60% | 0.00% |
| 2019 | 7-1-18 to 6-30-19 | \$20K or less | 7.90% | 13.90% | 21.80% | 0.00% |
| 2018 | 7-1-17 to 6-30-18 | Over \$20K | 10.70% | 13.90% | 24.60% | 0.00% |
| 2018 | 7-1-17 to 6-30-18 | \$20K or less | 7.90% | 13.90% | 21.80% | 0.00% |

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2019 and 2018, the University paid employee and employer contributions of \$2,961,097 and \$2,815,498, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2019, the University reported a liability of \$89,219,467 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2018. Therefore, the employer's portion was established as of the measurement date of June 30, 2018. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions at June 30, 2018, actuarially determined. At June 30, 2018, the University's proportion was 0.75029%, which was a decrease of 0.0285% from its proportion measured as of June 30, 2017.

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NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 15. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

For the year ended June 30, 2019, the University recognized pension expense of \$10,877,718. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 65,115 | \$ 1,697,990 |
| Changes of assumptions | 18,387,710 | - |
| Net difference between projected and actual earnings on pension plan investments | 197,509 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 899,274 | 1,960,924 |
| Employer's contributions subsequent to the measurement date | <u>2,960,097</u> | <u>-</u> |
| Total | <u><u>\$ 22,509,705</u></u> | <u><u>\$ 3,658,914</u></u> |

\$2,960,097 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | Total Debt Service |
|--------------------------------|-----------------------------|
| 2020 | \$ 9,990,188 |
| 2021 | 6,380,157 |
| 2022 | (482,250) |
| 2023 | <u>2,599</u> |
| | <u><u>\$ 15,890,694</u></u> |

**STATE OF NEW MEXICO
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NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)

Actuarial assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.50% |
| Salary increases | 3.25% composed of 2.50% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service. |
| Investment rate of return | 7.25% compounded annually, net of expenses. This is made up of a 2.50% inflation rate and a 4.75 real rate of return. |

| | | | | | |
|---|-----------------------|-------------|-------------|-------------|-------------|
| Average of Expected Remaining Service Lives | Fiscal year | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| | Service life in years | 3.35 | 3.77 | 3.92 | 3.88 |

Mortality

Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, no set back, generational mortality improvements with Scale BB from the table’s base year of 2000

Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one-year, generational mortality improvements in accordance with Scale BB from the table’s base year of 2012.

Disabled males: Based on RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.

Disabled females: Based on RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.

Active members: Based on RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table’s base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.

Retirement Age

Experience-based table rates based on age and service, adopted by the NMERB Board on April 21, 2017 in conjunction with the six-year experience study for the period ending June 30, 2016.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
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June 30, 2019**

NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)

Actuarial assumptions (Continued)

| | |
|---------------------------|--|
| Cost-of-living increases | 1.90% per year, compounded annually; increases deferred until July 1 following the year a member retires, or the year in which a member attains the age of 65 (67 for Tier 3), whichever is later or, for disabled retirees, until July 1 of the third year following retirement. |
| Payroll growth | 3.00% per year (with no allowance for membership growth). |
| Contribution accumulation | The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future. |
| Disability incidence | Approved rates are applied to eligible members with at least 10 years of service. |

Actuarial assumptions and methods are set by the Plan's Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted several economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%

The long-term expected rate of return on pension plan investments was determined using a building-block approach that includes the following:

- Rate of return projections that are the sum of current yield plus projected changes in price (valuations, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.

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NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)

| Asset Class | Target Allocation | Long-Term Expected of Return |
|--------------------|------------------------------|---|
| Equities | 33% | |
| Fixed income | 26% | |
| Alternatives | 40% | |
| Cash | 1% | |
| Total | <u>100%</u> | <u>7.25%</u> |

Discount rate

A single discount rate of 5.69% was used to measure the total pension liability as of June 30, 2018. This rate is .21% less than the 5.90% discount rate used for June 30, 2017

The June 30, 2018 single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, and a municipal bond rate of 3.62%. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2050. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2050 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

The projections of cash flows used to determine the June 30, 2018 single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Additionally, contributions received through Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)

Sensitivity of the University’s proportionate share of the net pension liability to changes in the discount rate

The following presents the University’s proportionate share of the net pension liability calculated using the discount rate of 5.69 percent, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.69 percent) or 1-percentage-point higher (6.69 percent) than the current rate:

| | 1% Decrease (4.69%) | Current Discount Rate (5.69%) | 1% Increase (6.69%) |
|--|------------------------------------|--|------------------------------------|
| University's Proportionate share of the net pension liability | <u>\$ 115,951,137</u> | <u>\$ 89,219,467</u> | <u>\$ 67,408,093</u> |

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in separately issued NMERB’S financial reports. The reports can be found on NMERB’s Web site at https://www.nmerb.org/Annual_reports.html.

Payables to the pension plan

At June 30, 2019, the University reported a payable of \$623,218 for outstanding contributions due to ERB.

NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

General Information about the OPEB

Plan description

Employees of the University are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

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NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Plan description (continued)

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA's financial information is included with the financial presentation of the State of New Mexico.

Benefits provided

The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Employees covered by benefit terms

At June 30, 2018, the Fund's measurement date, the following employees were covered by the benefit terms:

| | |
|--|-------------------|
| Plan membership | |
| Current retirees and surviving spouses | \$ 51,205 |
| Inactive and eligible for deferred benefit | 11,471 |
| Current active members | 93,349 |
| | <u>\$ 156,025</u> |
| Active membership | |
| State general | \$ 19,593 |
| State police and corrections | 1,886 |
| Municipal general | 17,004 |
| Municipal police | 3,820 |
| Municipal FTRE | 2,290 |
| Educational Retirement Board | 48,756 |
| | <u>\$ 93,349</u> |

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NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Contributions

Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the University were \$470,722 for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the University reported a liability of \$23,518,077 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The University’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2018. At June 30, 2018, the University’s proportion was 0.54085 percent.

For the year ended June 30, 2019, the University recognized OPEB income of \$791,312. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| | <u> </u> | <u> </u> |
| Difference between expected and actual experience | \$ - | \$ 1,392,421 |
| Net difference between projected and actual investment earnings on OPEB plan investments | - | 293,497 |
| Changes of assumptions | - | 4,390,721 |
| Changes in proportion | - | 1,369,348 |
| Employer's contributions made subsequent to the measurement date | <u>470,722</u> | <u>-</u> |
| Total | <u><u>\$ 470,722</u></u> | <u><u>\$ 7,445,987</u></u> |

Deferred outflows of resources totaling \$470,722 represent University contributions made subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in OPEB expense as follows:

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NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB(Continued)

| Fiscal Year Ending June 30: | |
|--------------------------------|----------------|
| 2020 | \$ (1,834,059) |
| 2021 | (1,834,059) |
| 2022 | (1,834,059) |
| 2023 | (1,482,430) |
| 2024 | (461,380) |
| | \$ (7,445,987) |

Actuarial assumption

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

| | |
|-----------------------------|---|
| Valuation Date | June 30, 2017 |
| Actuarial cost method | Entry age normal, level percent of pay, calculated on individual employee basis |
| Asset valuation method | Market value of assets |
| Actuarial assumptions: | |
| Inflation | 2.50% for ERB members; 2.25% for PERA members |
| Projected payroll increases | 3.25% to 12.50%, based on years of service, including inflation |
| Investment rate of return | 7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation |
| Health care cost trend rate | 8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs |
| Mortality | ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA members: RP-2000 Combined Healthy Mortality |

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NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

| Asset Class | Long-Term Rate of Return |
|-------------------------------|-------------------------------------|
| U.S. core fixed income | 2.10% |
| U.S. equity - large cap | 7.10% |
| Non U.S. - emerging markets | 10.20% |
| Non U.S. - developed equities | 7.80% |
| Private equity | 11.80% |
| Credit and structured finance | 5.30% |
| Real estate | 4.90% |
| Absolute return | 4.10% |
| U.S. equity - small/mid cap | 7.10% |

Discount Rate

The discount rate used to measure the Fund's total OPEB liability is 4.08% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2029. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 4.08% is the blended discount rate.

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 NEW MEXICO HIGHLANDS UNIVERSITY
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NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates

The following presents the net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.08 percent) or 1-percentage-point higher (5.08 percent) than the current discount rate:

| | 1% Decrease (3.08%) | Current Discount Rate (4.08%) | 1% Increase (5.08%) |
|---|------------------------------------|--|------------------------------------|
| New Mexico Highland University's | | | |
| Proportionate share of the net OPEB liability | \$ 28,462,411 | \$ 23,518,077 | \$ 19,620,840 |

The following presents the net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Trend Rates | 1% Increase |
|---|------------------------|------------------------------------|------------------------|
| New Mexico Highland University's | | | |
| Proportionate share of the net OPEB liability | \$ 19,881,020 | \$ 23,518,077 | \$ 26,369,611 |

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2018.

Payable Changes in the Net OPEB Liability

At June 30, 2019, the University reported a payable of \$78,138 for outstanding contributions due to NMRHCA.

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 June 30, 2019**

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, 2019, was \$133,355 which has been charged to expenditures.

NOTE 18. LEASES

At June 30, 2019, the University had various operating lease arrangements summarized as follows:

Operating Leases

Rent expense for operating leases amounted to \$1,080,635 for the year ended June 30, 2019. Included in current year rent expense is a lease for a building owned by the Foundation in the amount of \$366,967. The lease agreement expires during the year ended June 30, 2018. There is also a second lease for a parking lot owned by the Foundation in the amount of \$37,200. The leases with the Foundation have 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, 2019:

| Fiscal Year Ending June 30, 2019 | Operating Leases |
|-------------------------------------|---------------------|
| 2020 | \$ 821,035 |
| 2021 | 550,316 |
| 2022 | 474,465 |
| 2023 | 156,238 |
| | \$ 2,002,054 |

Commitments

At June 30, 2019, 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 | \$ 1,556,649 |
| Plant Funds | \$ 275,790 |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
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June 30, 2019**

NOTE 19. COMMITMENTS AND CONTINGENCIES

Contingencies

The University is a defendant in various legal actions arising from claims of wrongful termination and or discrimination. 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. At this point the likelihood of an unfavorable outcome is undeterminable.

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 classified as a public entity under 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.

On May 2015, the Board of Regents required the HSI board to downsize the operation staff and implement a solvency plan to address the significant negative fund balance. The board reduce the staff to the primary researcher on a part-time basis for the sole purpose is to answer technical questions from potential buyers of our patented products. On October 26, 2018 the Board of Regents voted to replace former members of the HIS board.

From inception, the University has advanced approximately \$1,488,000 to HSI to develop its patented isotopes. HSI recorded a gain from debt relief on the \$469,559 of reduction in amounts due to the University. The advances to HSI have been forgiven by the University due to the HSI's inability to generate the expected revenue to repay the advancements. Based on this the Highland Stable Isotopes has substantial doubt to continue as a going concern. The debt is forgivable by the university and does not conflict with the Anti-donation state policy as HSI was established as a Research and Development arm of the University.

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NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

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 operating lease agreement on January 30, 1997. Lease income for the year ended June 30, 2019, was \$355,225.

The Foundation has entered into a second operating lease agreement with Highlands University for the 8th Street Parking lot adjoining the campus. The Foundation purchased the property in 2014 and has entered into the lease on February 1, 2014, for a five-year period. Monthly rental is approximately \$3,100 per month. Rental income for the year ended June 30, 2019, was \$33,096.

NOTE 22. UNRESTRICTED NET POSITION SUPPLEMENTAL DISCLOSURE

Unrestricted net position without the effects of the required liabilities, deferred outflows and deferred inflows recorded per GASB Statement 68 is presented below to provide additional information to users regarding the University's financial position:

| | |
|--|----------------------------|
| Unrestricted net position (as stated in the statement of net position) | \$ (98,521,436) |
| Add: Net effect of pension adjustments | <u>100,862,018</u> |
| Adjusted unrestricted net position | <u><u>\$ 2,340,582</u></u> |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

NOTE 23. RECONCILIATION OF BUDGET BASIS TO GAAP

| | <u>Revenues</u> |
|---------------------------|-----------------------------|
| Budget basis revenue | \$ 68,885,980 |
| Loan | 123,816 |
| In kind donation | 280,800 |
| Agency | 100,735 |
| Endowments | 484,168 |
| Revenue per GAAP | <u><u>\$ 69,875,499</u></u> |
| | <u>Expenditures</u> |
| Budget basis expenditures | \$ 63,608,068 |
| Agency | 100,735 |
| Loan | 194,207 |
| Endowments | 64,179 |
| Depreciation expense | 4,780,901 |
| Pension expense | 10,877,718 |
| OPEB expense | (791,312) |
| Revenue per GAAP | <u><u>\$ 78,834,496</u></u> |

NOTE 24. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 24, 2019, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2019. Management reviews include the New Mexico Highlands Foundation, Inc. and Highlands Stable Isotopes, Inc. No such items have been reported through October 24, 2019.

NOTE 25. NEW ACCOUNTING STANDARDS

In August 2018, the GASB issued Statement No. 90, Majority Interests in an amendment of GASB Statements No. 14 and No. 6. The requirements of this statement are effective for periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the University.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This statement is not applicable to the University.

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June 30, 2019**

NOTE 25. NEW ACCOUNTING STANDARDS (CONTINUED)

In March 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This Statement applies to notes to financial statements of all periods presented. This standard will be implemented in a subsequent period.

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This standard will be implemented in a subsequent period.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the University.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged. The University has implemented this standard accordingly in the current year.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. This standard will be implemented in a subsequent period.

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This statement is not applicable to the University.

REQUIRED SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
Year ended June 30, 2019**

New Mexico Educational Retirement Board Pension Plan
Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

| Fiscal year | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------|---------------|---------------|---------------|---------------|
| Measurement date | 2018 | 2017 | 2016 | 2015 | 2014 |
| University's proportion of the net pension liability (assets) | 0.75029% | 0.77877% | 0.74889% | 0.77310% | 0.81023% |
| University's proportionate share of net pension liability (assets) | \$ 89,219,467 | \$ 86,548,356 | \$ 53,893,871 | \$ 50,075,746 | \$ 46,229,335 |
| University's covered employee payroll | \$ 20,254,346 | \$ 20,870,492 | \$ 21,108,107 | \$ 24,563,545 | \$ 24,563,545 |
| University's proportionate share of net pension liability (assets) as a percentage of its covered employee payroll | 440.50% | 414.69% | 255.32% | 203.86% | 188.20% |
| Plan fiduciary net position as a percentage of the total pension liability | 52.17% | 52.95% | 61.58% | 63.97% | 66.54% |

* *Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the University is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF CONTRIBUTIONS – Net Pension Liability
Year ended June 30, 2019**

New Mexico Educational Retirement Board Pension Plan
Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Statutory Required Contribution | \$ 2,960,097 | \$ 2,914,653 | \$ 3,085,048 | \$ 3,486,299 | \$ 2,973,025 |
| Contributions in Relation to the Statutorily Required Contribution | 2,960,097 | 2,914,653 | 2,973,025 | 3,054,737 | 2,973,025 |
| Contribution Deficiency (Excess) | <u>-</u> | <u>-</u> | <u>112,023</u> | <u>431,562</u> | <u>-</u> |
| University's Covered Payroll | <u>\$ 20,491,671</u> | <u>\$ 20,254,346</u> | <u>\$ 20,870,492</u> | <u>\$ 21,108,107</u> | <u>\$ 24,563,545</u> |
| Contributions as a percentage of Covered Payroll | 14.45% | 14.39% | 14.25% | 14.47% | 12.10% |

* *Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the University is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2019**

Changes in benefit provisions . There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2018.

Changes in Pension assumptions and methods . Actuarial assumptions and methods are set by the Board of Trustees (Board), based upon recommendations made by the plan's actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted a number of economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF
THE OPEB LIABILITY
Year ended June 30, 2019**

New Mexico Retiree Health Care Authority OPEB Plan
Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

| | Fiscal year | 2019 | 2018 |
|---|------------------|---------------|---------------|
| | Measurement date | 2018 | 2017 |
| University's proportion of the net OPEB liability (assets) | | 0.54085% | 0.57068% |
| University's proportionate share of net OPEB liability (assets) | | \$ 23,518,077 | \$ 25,861,352 |
| University's covered employee payroll | | \$ 23,134,050 | \$ 23,772,516 |
| University's proportionate share of net OPEB liability (assets) as a percentage of its covered employee payroll | | 101.66% | 108.79% |
| Plan fiduciary net position as a percentage of the total OPEB liability | | 13.14% | 11.34% |

* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the University is not available prior to fiscal year 2018, the year the statement's requirements became effective.

See Notes to Required Supplementary Information

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF THE UNIVERSITY CONTRIBUTIONS-OPEB
 June 30, 2019**

New Mexico Retiree Health Care Authority OPEB Plan
 Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

| | 2019 | 2018 |
|---|----------------|----------------|
| Statutory Required Contribution | \$ 470,722 | \$ 462,681 |
| Contributions in Relation to the Statutorily Required Contribution | <u>470,722</u> | <u>462,681</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> |
| University's Covered Payroll | \$ 23,536,100 | \$ 23,134,050 |
| Contributions as a percentage of Covered Payroll | 2.00% | 2.00% |

* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the University is not available prior to fiscal year 2015, the year the statement's requirements became effective.

See Notes to Required Supplementary Information

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2019**

Changes in plan membership . As part of the June 30, 2017 NMRHCA GASB 74/75 audit, it was discovered that 4,010 members were deemed participatns of non-participating employers. As a result those members were removed and thus excluded from the valuation in the year ended June 30, 2018.

Changes in OPEB assumptions and methods . The mortality, retirement, disability, turnover, and salary increase assumptions are based on the PUblic Employees Retirement Association (PERA) of New Mexio Annual Actuarial Valuation as of June 30, 2016 and the New Mexico Educational Retirement Board (ERB) Actuarial Experience Study as of June 30, 2016.

Changes in OPEB benefit provisions . For calendar years 2017 and prior there was a NMRHCA-paid basic life benefit of \$6,000 for all retirees who commenced benefits on or before December 31, 2012. The \$6,000 benefit decreased \$1,500 per year commencing January 1, 2018 until January 1, 2021 at which time retirees must pay 100% of the premium cost.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF BUDGETARY COMPARISONS – BUDGETARY BASIS
COMBINED REVENUES AND EXPENDITURES
BUDGET COMPARISON
Year ended June 30, 2019**

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------|-------------------|-------------------|--|
| Beginning Fund Balance | \$ 9,351,360 | 11,847,606 | 11,847,606 | \$ - |
| Unrestricted & Restricted Revenues | | | | |
| State general fund appropriations | 30,136,300 | 30,136,300 | 30,136,300 | - |
| Federal revenue sources | 14,643,279 | 10,592,124 | 10,202,576 | (389,548) |
| Tuition and fees | 20,703,900 | 17,644,584 | 15,543,535 | (2,101,049) |
| Land and permanent fund | 220,801 | 256,830 | 311,183 | 54,353 |
| Private grants/contracts | 3,373,016 | 4,170,371 | 2,946,474 | (1,223,897) |
| Sales & service | 4,192,448 | 3,929,931 | 3,562,946 | (366,985) |
| Government grants - state | 2,716,247 | 3,806,540 | 1,534,193 | (2,272,347) |
| Endowments and private gifts | - | - | - | - |
| Other | 867,500 | 889,585 | 1,010,857 | 121,272 |
| Capital outlay | 5,557,690 | 10,573,307 | 2,382,020 | (8,191,287) |
| Retirement of indebtedness | 1,246,181 | 1,256,000 | 1,255,895 | (105) |
| Total revenues | <u>83,657,362</u> | <u>83,255,572</u> | <u>68,885,980</u> | <u>(14,369,592)</u> |
| Total Unrestricted & Restricted Revenues | <u>93,008,722</u> | <u>95,103,178</u> | <u>80,733,586</u> | <u>(14,369,592)</u> |
| Unrestricted & Restricted Expenditures | | | | |
| Instruction and general | 40,269,112 | 39,027,450 | 36,220,375 | 2,807,075 |
| Student social and cultural | 1,539,755 | 1,909,704 | 1,555,833 | 353,871 |
| Research | 2,639,959 | 2,656,648 | 1,212,173 | 1,444,475 |
| Public service | 10,940,323 | 9,036,199 | 6,020,056 | 3,016,143 |
| Internal service departments | 2,270,154 | 2,511,604 | 2,407,012 | 104,592 |
| Student aid | 8,988,611 | 8,447,417 | 7,865,379 | 582,038 |
| Auxiliary enterprises | 3,791,959 | 3,388,019 | 2,892,152 | 495,867 |
| Intercollegiate athletics | 3,069,146 | 3,177,619 | 3,169,527 | 8,092 |
| Capital outlay | 2,260,735 | 4,272,385 | 335,315 | 3,937,070 |
| Renewal and replacements | 1,271,022 | 1,271,022 | 781,568 | 489,454 |
| Retirement of indebtedness | 2,299,404 | 1,719,702 | 1,148,677 | 571,025 |
| Total Unrestricted & Restricted Expenditures | <u>79,340,180</u> | <u>77,417,769</u> | <u>63,608,068</u> | <u>(13,809,701)</u> |
| Net Transfers | - | - | - | - |
| Change in net assets-budgetary basis | 4,317,182 | 5,837,803 | 5,277,912 | (559,891) |
| Ending Fund Balance | <u>\$ 13,668,542</u> | <u>17,685,409</u> | <u>17,125,518</u> | <u>\$ (559,891)</u> |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
RESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTIONAL AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year ended June 30, 2019**

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-----------------|----------------|--|
| Revenues | | | | |
| Tuition | \$ - | - | - | \$ - |
| Miscellaneous fees | - | - | - | - |
| Government appropriation - federal | - | - | - | - |
| Government appropriation - state | - | - | - | - |
| Government appropriation - local | - | - | - | - |
| Government grants - federal | 275,498 | 352,543 | 287,639 | (64,904) |
| Government grants - state | 133,854 | 274,870 | 184,971 | (89,899) |
| Contracts - local | 15,675 | - | - | - |
| Private grants/contracts | - | 1,000 | - | (1,000) |
| Endowments | - | - | - | - |
| Land and permanent fund | - | - | - | - |
| Private gifts | - | - | - | - |
| Sales & service | - | - | - | - |
| Other sources | - | - | - | - |
| Total revenues | <u>425,027</u> | <u>628,413</u> | <u>472,611</u> | <u>(155,802)</u> |
| Total unrestricted revenues | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>\$ -</u> |
| Expenditures | | | | |
| Instruction | \$ 200,745 | 341,960 | 265,949 | \$ 76,011 |
| Academic support | 23,773 | 33,576 | 23,532 | 10,044 |
| Student services | 127,012 | 113,871 | 90,140 | 23,731 |
| Institutional support | 55,469 | 121,367 | 80,822 | 40,545 |
| Operation & maintenance of plant | 18,028 | 17,639 | 12,168 | 5,471 |
| Total expenditures | <u>\$ 425,027</u> | <u>628,413</u> | <u>472,611</u> | <u>\$ 155,802</u> |
| Change in net assets-budgetary basis | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>\$ -</u> |

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF BUDGETARY COMPARISONS – BUDGETARY BASIS
SUMMARY OF INSTRUCTIONAL AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2019**

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------|--------------------|-------------------|--|
| Beginning Fund Balance | 2,936,981 | 8,619,981 | 8,619,981 | - |
| Revenues | | | | |
| Tuition | \$ 16,982,000 | 13,973,604 | 11,979,132 | \$ (1,994,472) |
| Miscellaneous fees | 1,020,900 | 1,368,980 | 1,374,577 | 5,597 |
| Government appropriation - federal | - | - | - | - |
| Government appropriation - state | 27,129,270 | 27,129,270 | 27,129,270 | - |
| Government appropriation - local | - | - | - | - |
| Government grants - federal | - | - | - | - |
| Government grants - state | - | - | - | - |
| Contracts - local | - | - | - | - |
| Private grants/contracts | - | - | - | - |
| Endowments | - | - | - | - |
| Land and permanent fund | 220,801 | 256,830 | 311,183 | 54,353 |
| Private gifts | - | - | - | - |
| Sales & service | 1,500 | 9,400 | 9,595 | 195 |
| Other sources | 652,000 | 620,000 | 793,999 | 173,999 |
| Total revenues | <u>46,006,471</u> | <u>43,358,084</u> | <u>41,597,756</u> | <u>(1,760,328)</u> |
| Total Unrestricted Revenues | <u>48,943,452</u> | <u>51,978,065</u> | <u>50,217,737</u> | <u>(1,760,328)</u> |
| Expenditures | | | | |
| Instruction | \$ 21,049,295 | 20,092,914 | 19,272,279 | \$ 820,635 |
| Academic support | 2,704,553 | 2,480,761 | 2,127,891 | 352,870 |
| Student services | 3,747,572 | 4,052,308 | 3,913,946 | 138,362 |
| Institutional support | 7,198,441 | 6,963,214 | 5,995,040 | 968,174 |
| Operation & maintenance of plant | 5,144,224 | 4,809,840 | 4,438,609 | 371,231 |
| Total expenditures | <u>\$ 39,844,085</u> | <u>38,399,037</u> | <u>35,747,765</u> | <u>\$ 2,651,272</u> |
| Net Transfers | 5,628,087 | 6,515,206 | 5,559,149 | (956,057) |
| Change in net assets-budgetary basis | <u>534,299</u> | <u>(1,556,159)</u> | <u>290,843</u> | <u>(3,455,543)</u> |
| Ending Fund Balance | <u>\$ 3,471,280</u> | <u>7,063,822</u> | <u>8,910,824</u> | <u>\$ (3,455,543)</u> |

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
June 30, 2019

| | Pledged Collateral | Southwest Capital Bank Las Vegas, NM | Wells Fargo Albuquerque NM | Community 1st Bank Las Vegas, NM | State Treasurer Santa Fe, NM | Total |
|--|----------------------|--|----------------------------------|---|---------------------------------------|----------------------|
| Funds on deposit | Safekeeping Location | Type of Security | | | | |
| Demand deposits | | | \$ 544,327 | 2,452,179 | 6,600,194 | 240,122 \$ 9,836,822 |
| FDIC insurance | | | | | | |
| Demand desopits | | | (250,000) | (250,000) | (250,000) | - (750,000) |
| Total uninsured public funds | | | \$ 294,327 | 2,202,179 | 6,350,194 | 240,122 \$ 9,086,822 |
| Collateral | | | 50% | 50% | 102% | |
| Requirement per section 6-10-18 NMSA | | | \$ 147,164 | 1,101,090 | 6,477,198 | - \$ 7,725,451 |
| Pledged collateral | | | | | | |
| GE ELEC CAP CORP FLOATER NOTE | FNMA ARM | | | | | |
| | CUS IP #36966THT2 | | | 981,358 | | 981,358 |
| GEN ELEC CAP FLOATER NOTE | FNMA | | | | | |
| | CUS IP #36966TJA1 | | | 980,462 | | 980,462 |
| LAS VEGAS NM CITY S CH DIST | CUS IP #51778FCU1 | | | 1,242,406 | | 1,242,406 |
| SOUTHERN SANDOVAL NM ARROYO | CUS IP #843789FC7 | | | 472,046 | | 472,046 |
| ALMAGORDO NM MUN SCD NO 001 | CUS IP #011464FQ2 | | | 225,443 | | 225,443 |
| FNMA POOL | CUS IP #31410LGN6 | | | 479,663 | | 479,663 |
| FNMA Pool MA1307 | CUS IP #31418ANZ7 | | | 1,271,260 | | 1,271,260 |
| FNMA POOL | CUS IP #31418ARF7 | | | 361,697 | | 361,697 |
| SOUTHERN SANDOVAL NM FLOOD CTL | CUS IP# 843789EG9 | | | 100,220 | | 100,220 |
| U.S TREASURY NOTE | CUS IP #912828R29 | | | 2,988,750 | | 2,988,750 |
| GNMA-II | CUS IP #36202FX68 | | | 407,514 | | 407,514 |
| FHLB FIXED RATE NOTE | CUS IP #3130ADJR2 | | | 1,001,074 | | 1,001,074 |
| FHLB FIXED RATE NOTE | CUS IP #3130AUQ5 | | | 1,000,931 | | 1,000,931 |
| FHLB FIXED RATE NOTE | CUS IP #3130A8QS5 | | | 987,172 | | 987,172 |
| Securities currently pledged by LOC * | | | 1,100,000 | | | |
| FNMA | CUS IP #3138WH2U5 | | | 940,887 | | |
| FNMA | CUS IP #3140F7PN3 | | | 815,314 | | |
| FNMA | CUS IP #3140FBG87 | | | 1,816,148 | | |
| FNMA | CUS IP #3140J8YC1 | | | 134,693 | | |
| | | | 1,100,000 | 3,707,042 | 12,499,996 | - 17,307,038 |
| Deficiency / (Excess) of pledge Collateral over the required amount | | | \$ (952,837) | (2,605,953) | (6,022,798) | - \$ (9,581,587) |

* Line of credit is with a Federal Home Loan Bank in accordance with subsection A of section 6-10-16 NMSA 1978.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
June 30, 2019**

| Name of Bank | Account Type | Bank Balance | Book Balance |
|---|-------------------------------|----------------------|---------------------|
| Southwest Capital Bank - Las Vegas | | | |
| Accounts payable account | Interest bearing checking | \$ 375,824 | \$ (170,752) |
| Payroll account | Interest bearing checking | 191,524 | 160,684 |
| University wire-transfer account | Interest bearing checking | 2,898 | 2,898 |
| Cash receipts account | Interest bearing checking | 476,461 | 490,935 |
| Cashier's credit card account | Interest bearing checking | 53,891 | 55,140 |
| Direct lending account | Interest bearing checking | 5,422 | 5,422 |
| Total | | <u>1,106,020</u> | <u>544,327</u> |
| Wells Fargo Bank - Albuquerque | | | |
| Rio Rancho business | Non-interest bearing checking | \$ 1,534,947 | \$ 1,534,947 |
| Rio credit card | Non-interest bearing checking | 12,661 | 12,661 |
| NMHU business | Non-interest bearing checking | 92,838 | 92,838 |
| Online payments | Non-interest bearing checking | 65,083 | 84,572 |
| NMHU golf course | Non-interest bearing checking | 30,936 | 30,936 |
| Farmington | Non-interest bearing checking | 687,028 | 687,028 |
| NMHU savings | Savings | 9,198 | 9,198 |
| Total | | <u>2,432,691</u> | <u>2,452,180</u> |
| Community 1st Bank - Las Vegas | | | |
| NMHU golf course | Non-interest bearing checking | 23,863 | 23,863 |
| Capital outlay | Money market account | 5,697,023 | 5,697,023 |
| NMHU savings | Savings | 879,308 | 879,308 |
| Total | | <u>6,600,194</u> | <u>6,600,194</u> |
| State Treasurer's Office | | | |
| Local government investments | Pooled | 240,122 | 240,122 |
| Cashier's cash | | | |
| | | <u>15,895</u> | <u>15,895</u> |
| Total cash and cash | | <u>\$ 10,394,922</u> | <u>\$ 9,852,718</u> |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
June 30, 2019**

As of June 30, 2018 cash and cash equivalents recorded in the Foundation's financial statements were as follows:

| | <u>Community 1st Bank</u> | <u>Southwest Capital Bank</u> |
|--|-------------------------------|-----------------------------------|
| Cash and cash equivalents | | |
| Cash and cash equivalents | \$ 103,625 | 228,401 |
| Reconciling items | <u>-</u> | <u>-</u> |
| Cash and cash equivalents recorded in financial statements | <u>\$ 103,625</u> | <u>228,401</u> |
| Cash and cash equivalents balance | \$ 103,625 | 228,401 |
| FDIC Insurance | <u>(250,000)</u> | <u>(250,000)</u> |
| Uninsured cash and cash equivalents in financial statements | <u>\$ -</u> | <u>-</u> |

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The foundation does not have a policy for custodial credit risk.

As of June 30, 2018, \$-0- of the Foundation's bank balance was exposed to uninsured amounts.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL
AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS
Year ended June 30, 2019**

| <u>Projection Description</u> | | <u>Authority Chapter</u> | <u>Laws</u> | <u>Appropriation Period</u> | <u>Expiration</u> | <u>Total Appropriation</u> |
|---|---|------------------------------|-------------|---------------------------------|-------------------|--------------------------------|
| <u>General Obligation Revenue Bond</u> | | | | | | |
| General Obligation A16-A5129 | NMHU Rodgers Admin Bldg Renovate | Ch 82 Sec 10/C/5 | 2016 | 2016 | 6/30/2021 | \$ 4,500,000 |
| General Obligation GOB17 A5112 | Library | Ch 82 Sec 10/B/2 | 2016 | 2016 | 6/30/2021 | 103,065 |
| | Total General Obligation Revenue Bonds | | | | | <u>\$ 4,603,065</u> |
| <u>Severance Tax Bond Proceeds</u> | | | | | | |
| Severance Tax 15A-0982 | Health & Safety Infrastructure Improve | Ch 3 Sec 36/2 | 2015 | 2015 | 6/30/2019 | \$ 1,000,000 |
| Severance Tax C2690 | NMHU Campus & Classroom Tech | Ch 80 Sec 35/2 | 2018 | 2018 | 6/30/2020 | 80,000 |
| Severance Tax C2691 | NMHU Safety Equip | Ch 80 Sec 35/3 | 2018 | 2018 | 6/30/2020 | 30,000 |
| | Total Severance Tax Bonds | | | | | <u>\$ 1,110,000</u> |
| <u>General Fund Appropriations</u> | | | | | | |
| General Fund D3457 | NMHU Athletic Facilities Improve | Ch 277 Sec 43 | 2020 | 2019 | 45107 | \$ 119,000 |
| General Fund D3458 | NMHU Classroom Tech Improve | Ch 277 Sec 43 | 2020 | 2019 | 44377 | 165,000 |
| General Fund D3460 | NMHU Info Tech Install | Ch 277 Sec 43 | 2020 | 2019 | 45107 | 80,000 |
| | Total General Fund Appropriations | | | | | <u>\$ 364,000</u> |
| | Total Capital Appropriations | | | | | <u>\$ 6,077,065</u> |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL
AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS (CONTINUED)
Year ended June 30, 2019**

| Bonds Sold To Date | Bonds Unsold | Amount Available | Prior Year Expenditures | Current Year Expenditures | Art in Public Places | Encumbered Amount | Current Year Revision Amount | Unencumbered Balance |
|-------------------------------|-------------------------|-----------------------------|------------------------------------|--------------------------------------|---------------------------------|------------------------------|---|---------------------------------|
| \$ 4,500,000 | \$ - | \$ 4,500,000 | \$ 371,645 | \$2,281,342 | \$ 45,000 | \$1,620,270 | \$ - | \$ 181,743 |
| 103,065 | - | 103,065 | 6,367 | 36,320 | - | - | - | 60,378 |
| <u>\$ 4,603,065</u> | <u>\$ -</u> | <u>\$ 4,603,065</u> | <u>\$ 378,012</u> | <u>\$2,317,662</u> | <u>\$ 45,000</u> | <u>\$1,620,270</u> | <u>\$ -</u> | <u>\$ 242,121</u> |
| | | | | | | | | |
| \$ 1,000,000 | \$ - | \$ 1,000,000 | \$ 563,161 | \$ 372,482 | \$ - | \$48,970.30 | \$ - | \$ 15,387 |
| 80,000 | - | 80,000 | - | 80,000 | - | - | - | - |
| 30,000 | - | 30,000 | - | 3,468 | - | - | - | 26,532 |
| <u>\$ 1,110,000</u> | <u>\$ -</u> | <u>\$ 1,110,000</u> | <u>\$ 563,161</u> | <u>\$ 455,949</u> | <u>\$ -</u> | <u>\$ 48,970</u> | <u>\$ -</u> | <u>\$ 41,919</u> |
| | | | | | | | | |
| \$ - | \$ - | \$ 119,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 119,000 |
| - | - | 165,000 | - | - | - | - | - | 165,000 |
| - | - | 80,000 | - | - | - | - | - | 80,000 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 364,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 364,000</u> |
| | | | | | | | | |
| <u>\$ 5,713,065</u> | <u>\$ -</u> | <u>\$ 6,077,065</u> | <u>\$ 941,173</u> | <u>\$2,773,612</u> | <u>\$ 45,000</u> | <u>\$1,669,240</u> | <u>\$ -</u> | <u>\$ 648,040</u> |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2019**

| Federal Grantor/Program Title | CFDA# | Award/Sub Award # | Expenditures |
|---|--------------|--------------------------|---------------------|
| Research and Development Cluster | | | |
| National Science Foundation | | | |
| Office of International Science and Engineering | 47.079 | 1658085 | \$ 74,662 |
| Mathematical and Physical Sciences | 47.049 | DMR-1523611 | 628,851 |
| Geosciences | 47.050 | EAR-1623807 | 379,522 |
| Education and Human Resources | 47.076 | 1742599 | 19,025 |
| Passed Through New Mexico State University | | | |
| Trans-NSF Recovery Act Research Support | 47.076 | Q02004 | 8,261 |
| Trans-NSF Recovery Act Research Support | 47.076 | Q01616 | 6,251 |
| Total National Science Foundation | | | <u>1,116,571</u> |
| Department of Health and Human Services National Institutes of Health | | | |
| Passed Through New Mexico State University | | | |
| Biomedical Research and Research Training | 93.859 | Q01677/Q02067 | 123,365 |
| Total Department of Health and Human Services- National Institutes of Health | | | |
| Department of Defense U.S. Army Material Command | | | |
| Basic Scientific Research | 12.431 | W911NF-15-1-0009 | 19,786 |
| Total Department of Defense US Army Material Command | | | |
| United States Department of Interior | | | |
| Passed Through State of NM State University | | | |
| Cooperative Research and Training Programs - Resources of the National Park System | 15.945 | Q01958 | 9,510 |
| Total Research and Development Cluster | | | <u>1,269,232</u> |
| United States Department of Education | | | |
| Student Financial Aid Cluster | | | |
| Federal Work-Study Program - Office of Student Financial Assistance Programs | 84.033* | P033A132646 | 383,441 |
| Federal PELL Grant Program - Office of Student Financial Assistance Programs | 84.063* | P063P130275 | 4,431,226 |
| Federal Supplemental Educational Opportunity Grants- Office of Student Financial Assistance Programs | 84.007* | P007A132646 | 186,633 |
| TEACH Grant Programs - Office of Student Financial Assistance Programs | 84.379* | P379T140275 | 22,000 |
| Federal Direct Student Loans - Office of Student Financial Assistance Programs | 84.268* | P268K150275 | 10,317,159 |
| Federal Perkins Loans - Office of Student Financial Assistance Programs | 84.038* | 000759 | - |
| Total Student Financial Aid Cluster - US Department of Education | | | <u>15,340,459</u> |
| United States Department of Education | | | |
| Overseas Program-Group Projects Abroad | 84.021A | P021A170003 | (1,025) |
| Higher Education_Institutional Aid | 84.031C | P013M140020 | 446,025 |
| Higher Education_Institutional Aid | 84.031C | P031C160248 | 466,367 |
| Minority Science and Engineering Improvement | 84.120A | P120A160011 | 136,578 |
| Passed Through University of New Mexico-Taos | | | |
| English Language Acquisition State Grants - Office of Elementary and Secondary Education | 84.365Z | T365Z160008 | 460,591 |
| Higher Education_Institutional Aid | 84.031S | P031S140070 | 150,016 |
| Total US Department of Education | | | <u>16,999,010</u> |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year ended June 30, 2019**

| Federal Grantor/Program Title | CFDA# | Award/Sub Award # | Expenditures |
|---|--------------|--------------------------|----------------------|
| Department of Defense | | | |
| Passed Through New Mexico State University | | | |
| Centers for Academic Excellence | 12.598 | 688127-8744 | 16,248 |
| Total Department of Defense | | | <u>16,248</u> |
| United States Department of Agriculture | | | |
| Southwest Forest Health and Wildfire Prevention | 10.694 | 18-DG-11031600-049 | 456,196 |
| Partnership Agreements | 10.699 | 18-CS-11330152-065 | 13,265 |
| Passed Through State of NM Energy, Minerals and Natural Resources Department | | | |
| Cooperative Forestry Assistance | 10.664 | 18-521-0410-0018 | 11,172 |
| Cooperative Forestry Assistance | 10.664 | 18-521-0410-0018 | 5,769 |
| Passed Through New Mexico State University | | | |
| Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture | 10.223 | 2014-38422-22086 | 53,381 |
| Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture | 10.223 | Q01821 | 47,358 |
| Cooperative Forestry Research | 10.202 | EQ01997 | 59,245 |
| Total United States Department of Agriculture | | | <u>646,385</u> |
| Department of Justice Office on Violence Against Women | | | |
| Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus | 16.525 | 2014-WA-AX-0003 | 10,000 |
| Total Department of Justice Violence Against Women Office | | | <u>10,000</u> |
| Department of Health and Human Services | | | |
| Passed Through New Mexico Department of Health | | | |
| Department of Health and Human Services/Centers for Disease Control and Prevention | 93.136 | 17/665.0300.20185 | 409 |
| Passed Through New Mexico Childrens Youth and Families Department | | | |
| Foster Care Title IV-E - Administration for Children and Families | 93.658 | 15-17849 | 1,559,017 |
| 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 | 19,437 |
| Total US Department of Health and Human Services | | | <u>1,578,863</u> |
| Total Federal Awards Expended | | | <u>\$ 20,519,738</u> |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
June 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes all federal assistance to the University that had activity during 2019 or accrued revenue at June 30, 2019. This schedule has been prepared on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenues are recorded for financial reporting purposes when the University has met the qualifications for the respective program.

NOTE 2. CONTINGENCIES

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

NOTE 3. INDIRECT COST RATE

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4. FEDERAL LOAN PROGRAM

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule.

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.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF JOINT POWER AGREEMENTS
 Year Ended June 30, 2018**

Joint Powers Agreement

| Participants | Responsible operating party | Beginning Date | Ending Date | Total Award | Portion \$ applicable to New Mexico Highlands University | Amount Contributed (FY19) | Audit Responsibility | Fiscal Agent | Description |
|-------------------------------------|-----------------------------|----------------|--------------|--------------|--|---------------------------|----------------------|--------------|---|
| New Mexico State Investment Council | NMHU | 2/2/2017 | Indefinitely | Undetermined | Undetermined | Undetermined | NMHU | NMHU | NMHU appoints the SIC as the fiduciary authorized to invest long term reserves of NMHU and all investment income thereon (collectively the "Long-Term Reserves"), through SIC Long-Term Pooled Investment Funds (the "Pooled Investment Funds"). All right, title and interest in and to the Long-Term Reserves (including, without limitation, all interest earnings) will at all times be vested in NMHU. |



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**Report on Internal Control Over Financial Reporting
And on Compliance and other Matters based on an
Audit of Financial Statements performed in
Accordance with *Government Auditing Standards***

Independent Auditors' Report

Board of Regents
New Mexico Highlands University
and
Mr. Brian Colón, Esq
New Mexico State Auditor

We have audited, 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, the financial statements of the governmental activities, the business-type activities, and the respective budgetary comparisons for the General Fund of the State of New Mexico, New Mexico Highland University (University) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 24, 2019.

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. We noted no deficiencies described in the accompanying schedules of findings and questioned costs a to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We noted one deficiency described in the accompanying schedule of findings and questioned costs as items 2019-001 to be a significant deficiency.

Compliance and Other Matters

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

Management's Response to Findings

Management's response to the finding identified in our audit is described in the accompanying schedule of Findings and Questioned Costs. Management's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Ricci & Company, LLC

Albuquerque, New Mexico
October 24, 2019



1030 18th Street NW
Albuquerque, NM 87104
505 338 0800 office www.riccicpa.com

**Report on Compliance for Each Major Federal Program
And Report on Internal Control over Compliance
Required by Uniform Guidance**

Independent Auditor's Report

Board of Regents
New Mexico Highlands University
and
Mr. Brian S. Colón, Esq.
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited the State of New Mexico, New Mexico Highlands University's (University) compliance with the types of compliance requirements described in the *OMB 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, 2019. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal status, regulations, and the terms and conditions of its federal awards to its federal programs.

Auditors' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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.

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 material effect on each of its major federal programs for the year ended June 30, 2019.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ricci & Company, LLC

Albuquerque, New Mexico
October 24, 2019

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2019**

A. SUMMARY OF AUDITOR'S REPORT

Financial Statements

| | |
|--|-------------------|
| Type of Auditor's report issued: | <u>Unmodified</u> |
| Internal Controls Over Financial Reporting: | |
| Material Weakness reported? | Yes |
| Significant Deficiencies reported not Considered to be material weaknesses? | Yes |
| Noncompliance material to financials statements noted? | No |

Federal Awards

| | |
|---|----|
| Internal control over major programs: | |
| a. Material weakness reported? | No |
| b. Significant deficiencies reported not considered to be material weaknesses? | No |
| c. Know questioned costs greater than \$25,000 for compliance requirement for a major program? | No |
| d. Known questioned costs greater than \$25,000 for which is not audited as a major program? | No |
| e. Known or likely fraud? | No |
| f. Significant instances of abuse relating to major programs? | No |
| g. Circumstances causing the auditor's report on compliance for each major program to be modified, unless otherwise reported as audit findings? | No |
| h. Instances where results of audit follow up procedures disclosed that the summary schedule of prior year audit findings prepared by the auditee materially misrepresents the status of any prior audit findings? | No |

| | |
|---|------------|
| Type of auditor's report issued on compliance for major programs | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | No |

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of federal Program or Cluster</u> |
|--------------------|---|
| Various | Student financial Assistance Center |
| 93.658 | Foster Care Title IV-E |
| Various | Research and Development Cluste: |
| 84.031C | Higher Education Institutional Aid |

| | |
|---|------------------|
| Dollar threshold used to distinguish between type A and type B programs: | <u>\$750,000</u> |
| Auditee qualified as low risk auditee? | Yes |

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
June 30, 2019**

B. SCHEDULE OF PRIOR YEAR FINDINGS

Financial Statement Audit

| | | |
|----------|--|----------|
| 2014-004 | Financial Report and Closing (Significant Deficiency) | Resolved |
| 2018-002 | Controls Over Campus Life Accounting (Material Weakness) | Resolved |
| 2018-005 | Controls Over Capital Assets (Material Weakness) | Resolved |
| 2018-001 | Compliance with Fuel Card Activity (Other Noncompliance) | Resolved |
| 2018-003 | Lack of Policies Over Budget Adjustment Requests (BARS) (Other Noncompliance) | Resolved |

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

None

C. CURRENT YEAR FINDINGS

Financial Statement Audit

| | |
|----------|--------------------------------------|
| 2019-001 | Controls over Golf Course Activities |
|----------|--------------------------------------|

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
June 30, 2019**

FINANCIAL STATEMENT FINDINGS

2019-001 Controls over Golf Course Activities (Significant Deficiency)

CONDITION

During our evaluation of the controls surrounding golf course activities, we noted that there was a lack of internal controls over the handling of cash and overall accounting for golf course activity.

CRITERIA

Pursuant to state statutes and best practices for cash handling, internal controls over transactions should be documented and implemented.

CAUSE

It appears that policies and procedures are lax and have not been enforced.

EFFECT

Noncompliance with the University's internal control requirements or failure to exercise policy could result in misappropriation of public funds.

RECOMMENDATION

We recommend that policies and procedures be reviewed and updated accordingly to properly account for the golf course activity and that more stringent controls over cash be implemented.

MANAGEMENT RESPONSE:

The University concurs with this audit finding. The Business Office will review cash management policies with the Golf Professional and assess the state of cash collection and accounting practices, via walkthroughs and site visits at the golf course. The Business Office will monitor the application of policies and procedures by verifying that deposits are submitted timely and that cash, inventory and revenue are reconciled.

TIMELINE TO CORRECT:

June 30, 2020

RESPONSIBLE PARTY:

VP for Finance and Administration
Golf Professional
Comptroller/Director of Finance

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2019**

An exit conference was held on October 10, 2019, with the following in attendance:

New Mexico Highlands University:

| | |
|--------------------|---|
| Dr. Sam Minner | President, Highlands University |
| Max Baca | Vice President for Finance and Administration |
| Frank Marchi | Member, Board of Regents Highlands University |
| Stephanie Gonzales | Director of Finance and Budget |
| Andrea Medina | Accountant I |
| Eleanor Duran | Accountant III |
| Gayle Martinez | Financial Aid Director |
| Adam Bustos | Purchasing Director |
| Anthony Trujillo | Payroll Accountant |
| Terri Law | VP Advancement |
| Louse c de Baca | Financial Officer |
| Denise Spicer | Payroll Manager |
| Ryan Aragon | Interim SAR Manager |

Ricci & Company LLC Personnel:

| | |
|--------------------|----------------------|
| Mike Easley, CPA | Audit Supervisor |
| Mark Santiago, CPA | Audit Senior Manager |



FINANCIAL AUDIT FOR FISCAL YEAR 2019

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2019.

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