

STATE OF NEW MEXICO

NEW MEXICO HIGHLANDS UNIVERSITY

FINANCIAL STATEMENTS

JUNE 30, 2007



NEW MEXICO HIGHLANDS UNIVERSITY®

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FINANCIAL STATEMENTS
JUNE 30, 2007

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

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BOARD OF REGENTS



Javier M. Gonzales, Chairman

Javier Gonzales has extensive experience as a leader in a broad range of projects in private and public arenas, having been instrumental in organizing numerous successful joint ventures between private interests. Gonzales founded IronStone Consulting in 2003 to help companies work with local governments. Gonzales was an executive with the global management consulting company Accenture, where he led the global company's business development efforts in the U.S. local government market. As a former Santa Fe County commissioner, Gonzales was elected president of the National Association of Counties. Gonzales was the youngest NACo president ever as and the first Hispanic to serve in the organization's 66-year history. He served as chief representative for NACo before Congress, the White House and the Administration, and served as expert witness to the U.S. Senate and the White House on homeland security.



Walter G. Adams, Vice Chairman

Walter Adams retired from the New Mexico Department of Transportation, where he was District 4 area maintenance superintendent in charge of maintenance operations. Adams has been involved with the Las Vegas schools and community for many years, serving on many boards, including Foster Grandparent Senior Companions Advisory Board, New Mexico Highlands University Stu Clark Invitational Basketball Committee and the City of Las Vegas Recreational Committee. He has served on the West Las Vegas School Board, as West Las Vegas Booster Club president, MESA parent advisor, member of the Parent Teacher Organization, as well as coaching several team sports.



Robert Benavides

Robert Benavides is governor of the Pueblo of Isleta, having been elected to his second two-year term in November 2006. He represents the Pueblo of Isleta in various organizations including the National Congress of American Indians, the National Indian Gaming Association, the New Mexico Indian Gaming Association, and the Middle Rio Grande Council of Governments. He is also a member of the All Indian Pueblo Council and the Southern Pueblos Governors Council. Prior to serving as Governor, Benavides worked for the Pueblo of Isleta as the lead compliance inspector for the pueblo's Gaming Regulatory Agency. In 1994, he retired from the Bureau of Indian Affairs Law Enforcement, where he served as captain of police and as the acting branch chief for law enforcement. Governor Benavides is devoted to Indian education and was instrumental in the construction of the Isleta Elementary School, which opened for learning in December 2006.



Sherry Salas

Sherry Salas is completing her master's degree in computer science at New Mexico Highlands University. As an undergraduate earning a double major in computer science and media arts, Salas was active with a range of campus and community programs, including the Highlands University Student Affairs Committee, where she served as chairwoman, and the Highlands University Association for Computing Machinery, where she served as vice president. She also served as a Highlands University student senator and lab manager for the Computer Science Department.



Rosanna Vazquez

Rosanna Vazquez was admitted to the New Mexico Bar in May 1996. Her practice has been focused on land use and subdivision entitlement, water and land use policies and general real estate matters. As an attorney for Santa Fe County, she was responsible for representing the Land Use Department and representing the county in enforcement actions, interpreted ordinances, and drafted zoning ordinances. She represented the Board of County Commissioners and the Extra-Territorial Zoning Authority on all manners of governmental issues. Vazquez serves on the City of Santa Fe's Board of Adjustment where variances and special exceptions to code requirements are heard. She recently joined as a board director for Hands Across Cultures, a group of dedicated public servants whose goal is to educate and provide opportunity to the youth of Northern Santa Fe and Rio Arriba County.



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

Official Roster

June 30, 2007

Board of Regents

Name	Title
Javier M. Gonzales	Chairman
Walter G. Adams	Vice - Chairman
Rosanna C. Vazquez	Secretary/Treasurer
Governor Robert Benavides	Member
Sherry Salas	Member

Administrative Officials

Dr. James Fries	President
Dr. Gilbert Rivera	Interim Vice President for Academic Affairs
Domingo Sanchez	Interim Vice President for Finance & Administrative Services
Judy Cordova	Vice President for Student Affairs
Grace Montoya	Controller



KARDAS • ABEYTA • WEINER P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the State of New Mexico, New Mexico Highlands University (the "University") as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. We also have audited the budget comparisons presented as supplemental information as of June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the University and its discretely presented component unit are intended to present the net assets, changes in net assets and cash flows, where applicable, of only that portion of the State of New Mexico that is attributable to the transactions of the University and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities and discretely presented component units of the University as of June 30, 2007, and their respective changes in financial position and cash flows of the University for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred above present fairly in all material respects, the budgetary comparisons of the University for the year ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2007, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and do not provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 17, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements and budgetary comparisons presented as supplementary information. The accompanying Schedules of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and the schedule of individual deposit accounts, and schedule of pledged securities by bank account are presented for purposes of additional analysis, and are not a required part of the University's financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kardas, Abeyta & Weiner, P.C.

October 3, 2007

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

Introduction

The management of New Mexico Highlands University (University) herewith presents its financial statements and required supplementary information for the year ended 30 June 2007 (FY07). The University is required to conform with the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, which applies the standards to public colleges and universities. A new requirement under GASB 34/35 is the presentation of **all** of the University's assets, liabilities, net assets and financial activities in one column, as opposed to fund type. Offsetting amounts owed by one fund to another, inter-fund transfers, and other "duplications" have been eliminated. Also, applying the required **full accrual basis** of accounting, the fiscal year's revenues are recorded regardless of when the corresponding cash has been received, and expenses are recorded regardless of when corresponding bills have been paid.

Another new requirement under GASB 34/35 is the inclusion of the financial statements and certain supplementary information of the **University's foundation**: New Mexico Highlands University Foundation, Inc., a nonprofit organization. It has been established to exclusively serve the charitable, scientific and educational purposes of the University and therefore qualifies as its "component unit".

Management's Discussion and Analysis brings the financial highlights to the reader's attention and provides a brief economic outlook. A summary of the University's financial statements, the **Statement of Net Assets**; the **Statement of Revenues, Expenses and Changes in Net Assets**; and the **Statement of Cash Flows**, is shown and discussed, including the prior year's amounts for comparison purposes.

In summary, management is pleased that during FY07, the University has made significant progress in its overall financial position and availability of working capital. For example, net assets increased 7.7 percent from \$63.8 million to \$68.7 million, and cash/cash equivalents increased by 11.4 percent from \$20.2 million to \$22.5 million. The enclosed financial statements and footnotes, in conjunction with budgetary projections for FY08, show that the University has laid the financial foundation and prerequisites to carry out the ambitious goals of the new Strategic Plan for 2003 – 2008. (The Strategic Plan is available to the public on the University's web site: www.nmhu.edu.)

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

Discussion of Statement of Net Assets

Current assets increased 19.1 percent during the year. The ending balance of \$31.4 million consists primarily of cash/cash equivalents (\$22.5 million) and receivables (\$7.2 million). Cash/cash equivalents increased 11.4 percent. However, it should be noted that all cash and cash equivalents are essential and completely designated for ongoing operations. The University has implemented procedures to collect receivables in a timely manner and is well able to meet all its current financial obligations.

The total cost of **Capital assets** is comprised of land, buildings and improvements (\$88.4 million); and library books, equipment, vehicles, and furniture (\$24.5 million). Under the new GASB 34/35 standards, all capital assets, except land and construction-in-progress, are being **depreciated**, meaning that a percentage of the assets' cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$43.0 million (\$112.9 million cost less \$69.9 million accumulated depreciation).

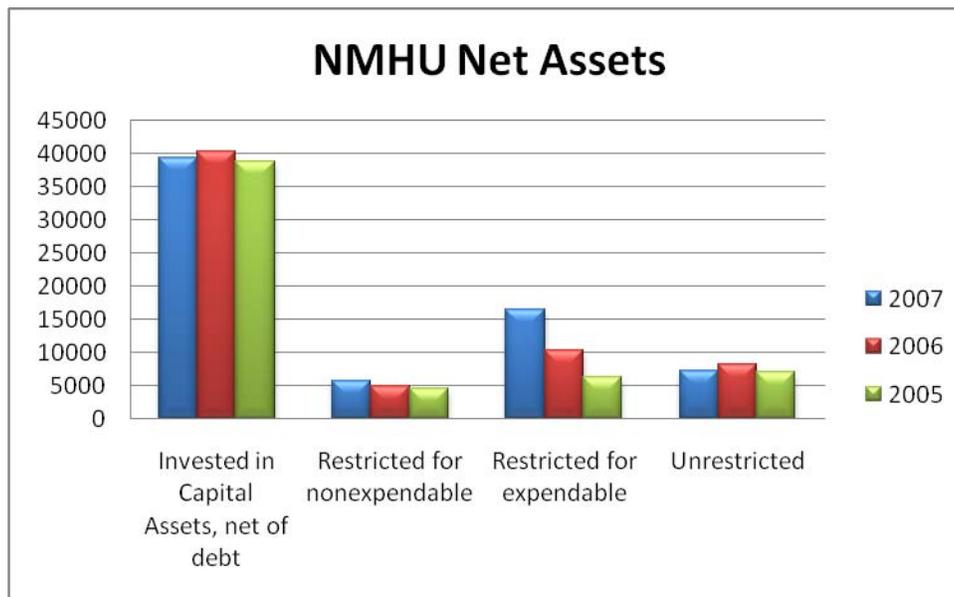
Total liabilities of \$11.1 million constitute 13.9 percent of total assets and consist primarily of payables/accrued liabilities (\$5.6 million), bonds/notes payable (\$3.6 million), and deferred revenue (\$1.9 million). The latter represents money that has been received from granting agencies, but not yet earned.

Total net assets increased by \$4.9 million, or 7.7 percent, during the year. (Over a two-year period, net assets increased \$12.1 million or 21.3 percent). The ending balance of \$68.7 million is derived by deducting total liabilities from total assets and shows the composition of the University's equity. Restricted for nonexpendable (\$5.8 million) represents the University's endowment corpus, whereas restricted for expendable (\$16.4 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$7.2 million) are available to the University for any lawful purpose.

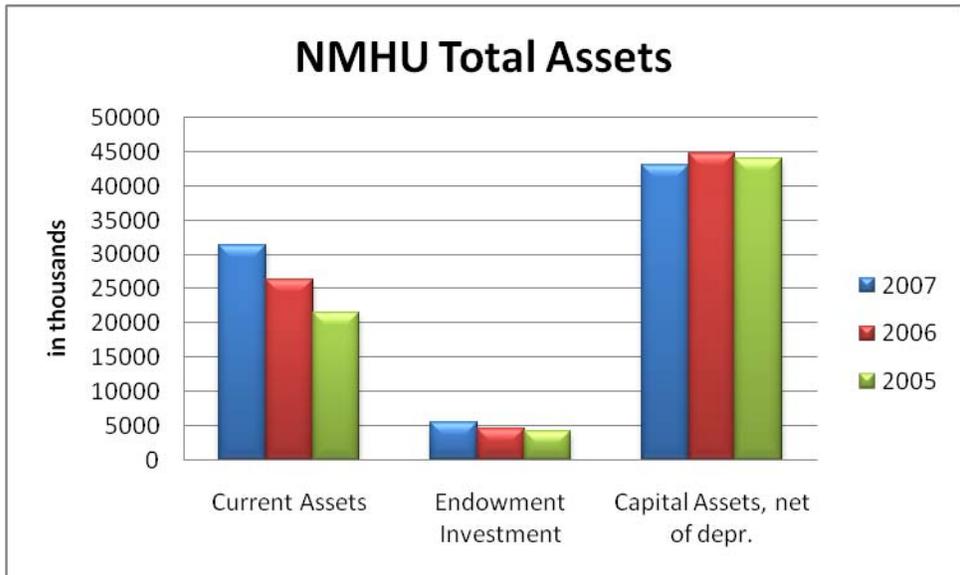
The **Foundation's net assets** increased \$0.91 million, from \$3.6 million to \$4.5 million, due to the fact that expenditures were kept below the revenue level.

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

Net Assets as June 30, 2007 and 2006 (Thousands)		
	<u>2007</u>	<u>2006</u>
Assets:		
Current assets	\$31,375	\$26,339
Endowment investments	5,541	4,647
Capital assets, net of accum. depr.	<u>43,001</u>	<u>44,775</u>
Total assets	<u>79,917</u>	<u>75,761</u>
Liabilities:		
Current Liabilities	8,157	7,449
Non-current Liabilities	<u>2,982</u>	<u>4,425</u>
Total Liabilities	<u>11,139</u>	<u>11,874</u>
Net Assets:		
Invested in capital assets, net of debt	39,380	40,350
Restricted for nonexpendable	5,787	4,867
Restricted for expendable	16,433	10,374
Unrestricted	<u>7,178</u>	<u>8,296</u>
Total net assets	<u>\$68,778</u>	<u>\$63,887</u>



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



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

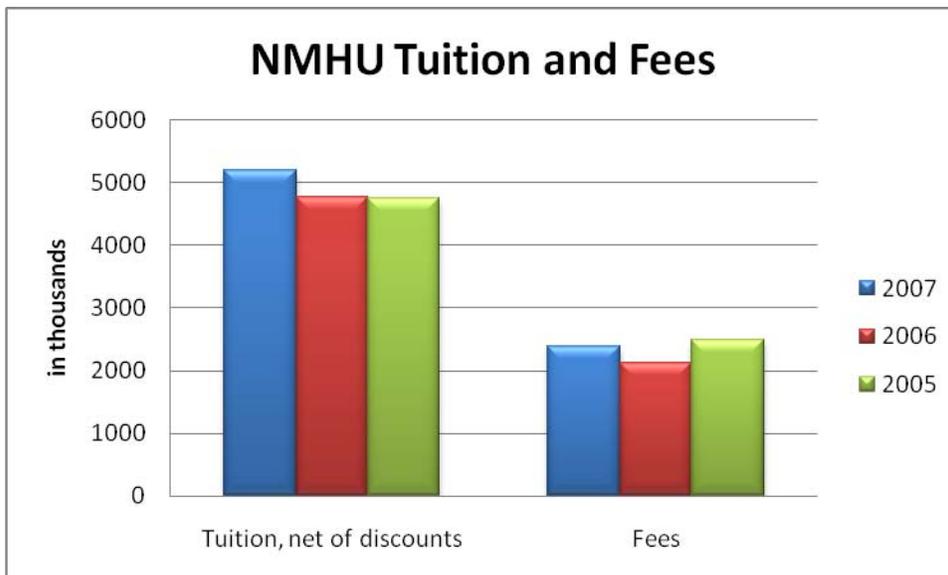
This statement shows the components that increased, in the aggregate, the University’s net assets by \$4.9 million during the year. According to the new accounting standards, operating expenses (\$57.8 million) are subtracted from operating revenues (\$27.2 million), resulting in an “operating loss” (\$30.6 million). However, the latter is not very meaningful, since it excludes state general fund appropriations (\$32.5 million), which are required to be classified as non-operating revenue, because they are provided to the University without the state receiving commensurate goods and services for this revenue. Since state general fund appropriations are essential for the University to carry out its instructional and public service mission, the reader should focus on the \$3.4 million **“Income before other revenue, expenses, gains and losses”** achieved during the year.

Added to this income is \$1.5 million in capital grants and gifts (federal and state money designated for construction projects), in order to arrive at an increase in net assets of \$4.9 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

Analysis of tuition and fees revenue				
	<u>2007</u>	<u>2006</u>	<u>Incr (Decr)</u>	
Tuition	\$6,249	\$5,632	617	11.0%
Fees	<u>2,390</u>	<u>2,123</u>	<u>267</u>	12.5%
Subtotal	8,639	7,755	884	11.4%
Tuition discounts/allowance	<u>(1,052)</u>	<u>(863)</u>	<u>(189)</u>	21.9%
Net	<u>\$ 7,587</u>	<u>\$6,892</u>	<u>695</u>	10.0%

Tuition and fees, net of discounts and allowances, increased by 10 percent however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees (as required by the new standards), the latter increased by \$.88 million, or 11.4 percent.

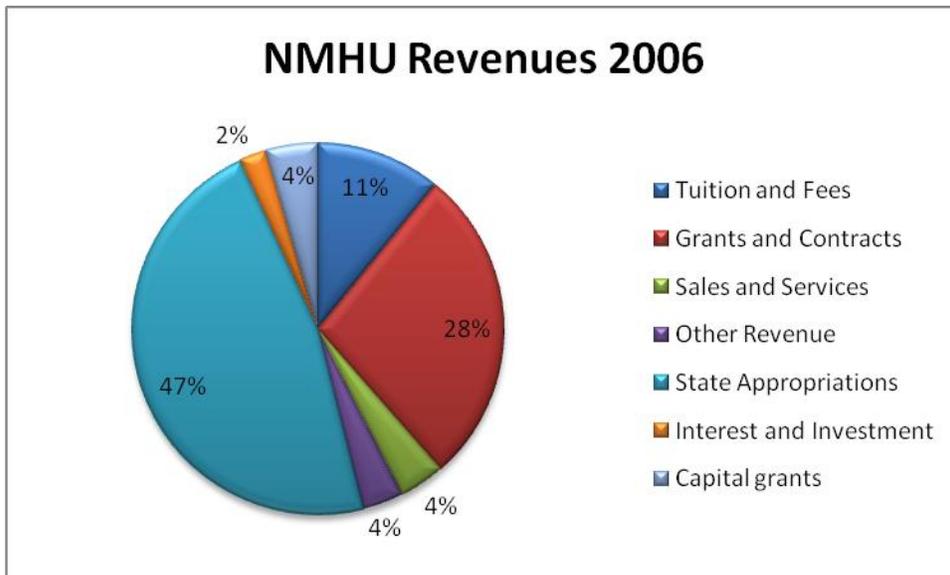
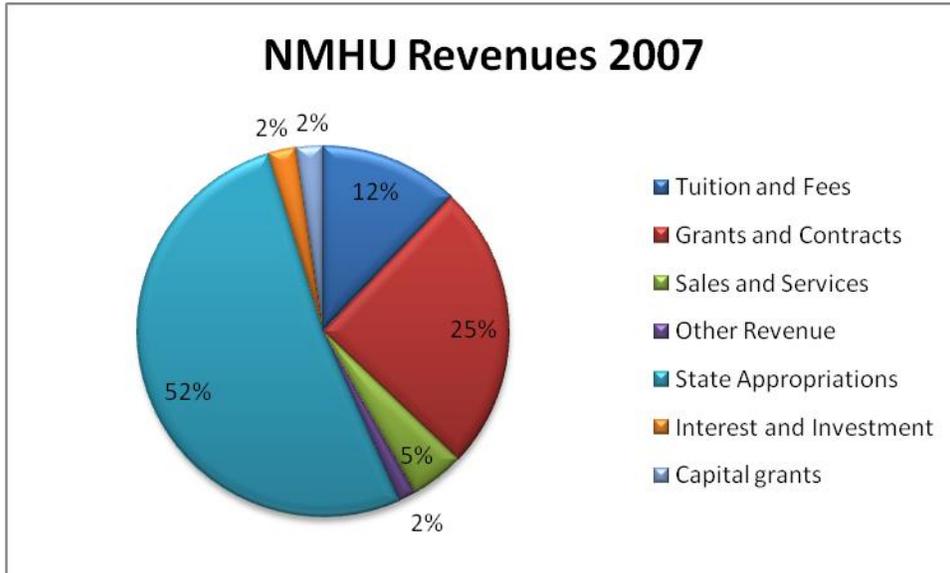


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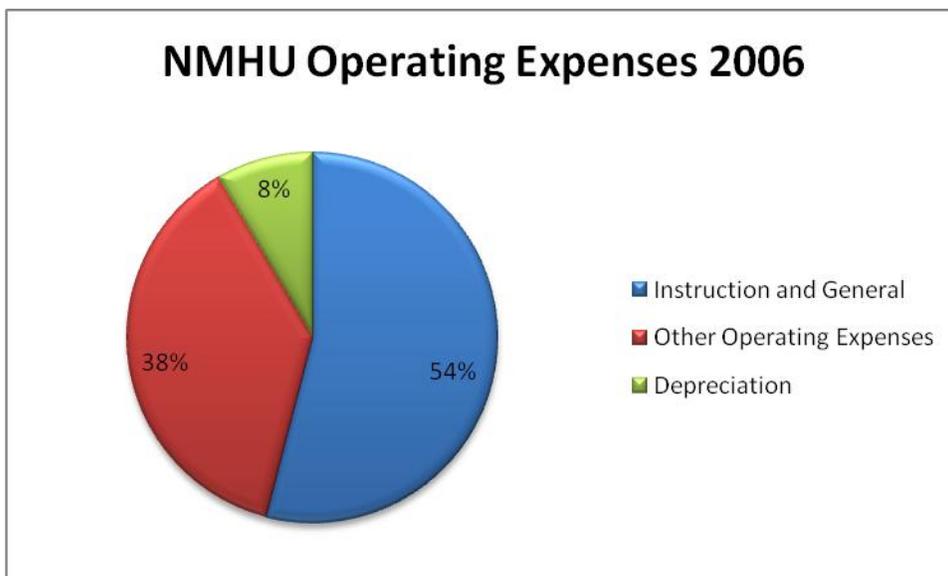
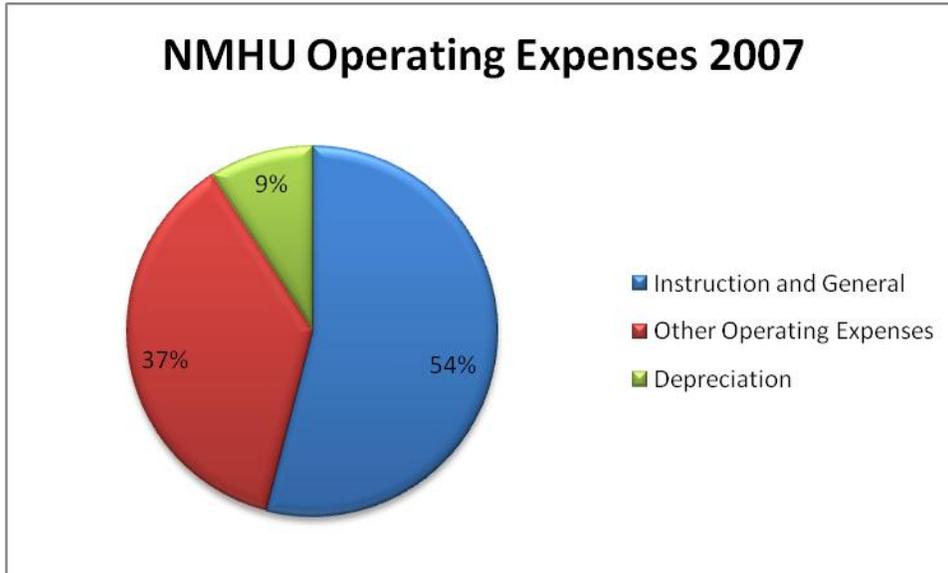
State general fund appropriations increased by \$2.8 million (10.0%), primarily due to the fact that the University's funding base (work load) for Instruction & General was increased for FY08, because the University's student credit hours had exceeded the required 3% threshold.

Activities for the year ended June 30, 2007 and 2006 (Thousands)		
	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Tuition and Fees, net	\$ 7,586	\$6,892
Grants & Contracts	15,664	17,474
Sales and Services	2,950	2,514
Other Revenue	<u>953</u>	<u>2,265</u>
Total Operating Revenues	<u>27,153</u>	<u>29,145</u>
Operating Expenses:		
Instruction and General	31,234	30,289
Other Operating Expenses	21,359	21,054
Depreciation	<u>5,216</u>	<u>4,702</u>
Total Operating Expenses	<u>57,809</u>	<u>56,045</u>
Operating Loss	<u>(30,656)</u>	<u>(26,900)</u>
Non-Operating Revenue:		
State general fund appropriations	32,563	29,782
Interest and investment income	<u>1,535</u>	<u>1,488</u>
Income before other rev., exp., gains, losses	<u>3,442</u>	<u>4,370</u>
Other Revenue:		
Capital grants and gifts, net	<u>1,448</u>	<u>2,842</u>
Increase in net assets	<u>4,890</u>	<u>7,212</u>
Nest assets, beginning, unadjusted	63,886	56,674
Cumulative effects – depreciation	<u> </u>	<u> </u>
Net assets, beginning, as adjusted	<u>63,886</u>	<u>56,674</u>
Net assets, ending	<u>68,776</u>	<u>63,886</u>

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



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



Discussion of Statement of Cash Flows

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University achieved a \$2.4 million net increase during the year, resulting in an ending cash balance of \$22.6 million. As a result of tight expenditure controls, collection of receivables, timely drawing of grant funds and other prudent cash management measures, the University was able to gradually increase the average amount of cash in the bank throughout the year, thus significantly improving the University's access to working capital and investment earnings. The Statement of Cash Flows, in conjunction with the Statement of Net Assets, indicates that the University is well able to meet its obligations and finance its operations.

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

Statement of Cash Flows for the Year ended June 30, 2007 and 2006 (thousands)		
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net cash used by operating activities	(28,066)	(22,140)
Net cash provided by noncapital financing activities	34,011	32,624
Net cash flow provided by investment activities	641	1,156
Net cash used by capital & related financial activity	(4,247)	(6,239)
Net Increase in cash and cash equivalents	2,339	5,401
Cash and cash equivalents, beginning of year	20,210	14,809
Cash and cash equivalents, ending of year	22,549	20,210

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 vs. the accrual basis of accounting in a fund accounting format as required by the New Mexico State Auditor.

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

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

Discussion of Significant Capital Projects

In FY06, the New Mexico Higher Education Department was tasked to formulate a statewide assessment of facility needs in order to address the issue in the 2007 Legislative session. As a result, the session provided for an additional \$40.0 million dollars distributed through the Building Renewal and Replacement (BR&R) formula to all Higher Education entities. NMHU was the recipient of approximately \$1.7 million dollars from this fund plus additional appropriations for infrastructure, deferred maintenance, master planning, renovation, equipment, and \$1M toward a new Student Center for a total of \$5.7M.

In addition, other funding available from prior General Obligation bonds approved by the Legislature and the citizens of New Mexico includes \$3.0M toward remodeling the Lora Mangum Shields Science Building, \$3.5M for creation of a one-stop shop for student services at the Felix Martinez building, \$3.0M for roof replacement and a new HVAC system at Burris Hall, and \$5.0M toward a new Student Center. The Burris Hall project and approximately 60% of the Science Building are scheduled for completion in the spring of 2008. As noted below, an additional \$1.8M will be sought from the Legislature to complete the final 40% of the Science Building. Architects for the Felix Martinez and Student Center projects will be selected yet this fall. A design for the Student Center that could allow for phased construction will be required in order to initiate construction of a new dining hall with existing funds even as we seek the balance of funding needed for the complete project.

The total projected cost for currently planned Capital Outlay projects is approximately \$73.5 million dollars, which includes \$6.5M in existing funding for the Science Building and Felix Martinez, the projects listed in the table below, plus \$16M for a new 280 bed residence hall. The University intends to issue revenue bonds through the NM Finance Authority to fund the residence hall project. Funding for the other projects will be sought as listed below during the 2008 legislative session.

<i>Project Name</i>	<i>Request</i>	<i>Estimated Cost</i>
Infrastructure	\$ 9,000,000	\$ 25,400,000
Student Center & Cafeteria	\$ 9,478,599	\$ 16,000,000
Lora Mangum Shields Science Building	\$ 1,794,103	\$ 7,000,000
Swimming Pool Facilities Upgrade	\$ 1,062,509	\$ 1,062,509
Rodeo Facility	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Total	<u>\$ 22,835,211</u>	<u>\$ 50,962,509</u>

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

The NMHU Board of Regents (BOR) continues to make Infrastructure and the Student Center & Cafeteria our number one priority for the 2008 Legislative session along with securing funding to complete the Lora Mangum Shields Science Center as the number two priority.

Current Facts

Energy Efficiency – In 2006 New Mexico Governor Bill Richardson issued Executive Order 2006-001 State of New Mexico Energy Efficient Green Building Standards for State Buildings and Executive Order 2006-069 New Mexico Climate Change Action. The NMHU Board of Regents directed staff to look at energy efficiencies and develop criteria to address energy conservation. As a result the following goals are to be considered and included in all projects when applicable:

NMHU GOALS FOR ENERGY CONSERVATION

1. **CAMPUS SITE:**
 - Storm water management - will be included in street improvements projects.
 - Water storage / in future site improvements projects
2. **WATER CONSERVATION:**
 - Water harvesting / in future roofing projects and renovations.
 - Water efficient landscaping / by replacing plants and trees in the on-going campus maintenance
 - Water use reduction/ when replacing bathroom fixtures etc.
3. **ENERGY:**
 - Optimize energy performance of systems in existing buildings
 - Switch to energy efficient light fixtures
 - Switch to per-building heating systems / would economize loss of steam through steam-lines leaks and use of more efficient stand alone technology
4. **BUILDING – DESIGN:**
 - Apply green/Leed standards to the design of any renovation, and/or new facilities
 - Research the use of regional and rapidly renewal materials in the on-going campus construction
 - Optimize use of passive solar and/or active solar
 - Research opportunities for the implementation of Green Power in the campus

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

5. RESOURCES AND MATERIALS MANAGEMENT:

- Construction waste management, and re-use
- Identify possible recyclable materials
- Building upgrades to remodeled/new buildings

6. TRANSPORTATION:

- Establish a replacement schedule to acquire energy efficient vehicles
- Identify alternative ways of transportation for students & staff around campus

A major problem in recent years has been the frequent rupture of aged steam lines that heat the campus. A plan to install modern stand-alone boilers (87.5% efficient) in each building in order to abandon the steam lines (30% efficient) is well underway, and it is anticipated that the "Main" Boiler System (1 of 3 large systems) will be abandoned in fiscal year 2008. The University's fleet is also under review and a number of larger vehicles have been replaced with "sidewalk only" trucks and carts.

Strategic Plan and Campus Master Plan

The University's Strategic Plan for the period of 2003-08 has suffered through a period of leadership change and has lost some of its relevancy. A campus-wide effort to revisit, update, and simplify the Plan will be initiated this year. The University's last campus master plan was developed in the late 1990's and must also be updated once the Strategic Plan is developed enough to identify needed facilities and logical flow patterns for the campus. NMHU was successful in securing \$100,000 to provide for architectural and other professional assistance during the 2007 legislative session.

Economic Outlook

Due to increases in enrollment, the University qualified for a base funding adjustment in FY08 and will qualify for an additional increase of close to \$600,000 in FY09 (via the Higher Education Department's funding formula). The University has regained a solid financial footing and continues to strengthen its financial position. Enrollment in the fall of 2007 was essentially flat, with a very slight decrease in head count and a slight increase in student credit hours. Enrollment at the main campus and at the various Centers is expected to increase over the next few years due to more effective marketing and greater stability in institutional leadership. Several steps are underway to assure student needs are met more effectively in an effort to improve retention. Additionally, the University anticipates taking over the privately run Raton Learning Center and expanding its programming starting in January of 2008. The University is also actively engaging in strategically relevant partnerships throughout Northern New Mexico and the entire state.

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

In FY06, the Highlands University BOR and Administration decided to target the recruitment of incoming freshmen. The BOR approved a new HOPE (Highlands Opportunity for Performance Excellence) Scholarship for all incoming full-time, first-time freshmen who did not otherwise qualify for a tuition scholarship. The scholarship covers all tuition expenses for the first year at NMHU. This scholarship allows individuals to move into the higher education setting and evaluate their academic potential with minimal financial risk. The HOPE Scholarship also allows students who qualify to transition into the statewide Lottery Scholarship after the first semester. The Hope Scholarship contributed significantly to a huge increase in new freshman for the fall of 2006; however, not all of the students were really committed to their college success and retention rates were adversely affected. The number of new freshmen in the fall of 2007 class dropped significantly compared to 2006, but is still more than 50% above any freshmen class in the 2000-05 period and the students overall are better prepared academically.

In order to be proactive in marketing the University, the Office of Student Recruitment;

- Continues to contact all high school counselors throughout the states of New Mexico, Arizona, California, and Colorado, Texas and Nevada. NMHU is expanding its efforts throughout the entire nation.
- Works closely with the Orientation Leaders and Peer to Peer callers in promoting the university.
- Works with private entities to distribute HOPE Tuition Scholarship information.
- Has sent out posters to all of PNM's payment centers and have identified all recreation centers throughout the Southwest to also receive posters.
- Is working with Albuquerque's Park and Recreation Department and their weekly dance show that is broadcast throughout the entire state to raise awareness of NMHU and the Hope Tuition Scholarship
- Has sent flyers with all mailouts from the orientation coordinator and other University organizations to put a Hope Tuition Poster in every post office in Northeastern New Mexico.
- Is streamlining our Concurrent Enrollment process to attract more students from the two local high schools and beyond.

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

Other NMHU Initiatives

Research and Public Service Projects

NMHU implemented one new research and public service project in FY08, Social Work Outlook and Clinical Training, and has requested recurring funding for this initiative. Expanded funding for the Forest and Watershed Restoration Institute, CESDP, and other projects will be sought from the Legislature in addition to funding for two new projects for fiscal year 2009:

- **Substance Abuse Student Education Program (SASEP)** - SASEP is designed to: Screen 400 students regarding attitude, behavior and perceptions of alcohol and substance abuse, Provide brief intervention/treatment to 300 students; Provide campus wide training regarding drinking/alcohol poisoning, violence and prevention; and Reduce the number of alcohol related incidents on campus.
- **Ben Altamirano Institute (BAI)** – BAI is designed to: Provide workshops and seminars for high school students and parents; Involve educational and motivational activities to encourage students to enroll in higher education; and Emphasize reading, writing, math and leadership skills.

Contact Information

The reader is encouraged to contact the University with any questions or comments:

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF NET ASSETS
Year Ended June 30, 2007**

	Primary Government	Component Unit
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,549,613	48,195
Student accounts receivable, net of an allowance of \$2,512,111	1,219,159	-
Third party receivable	1,163,283	-
Grants receivable, net of an allowance of \$912,243	2,807,686	-
Other receivables	1,998,447	149,019
Inventories	961,576	-
Prepaid assets	675,569	3,867
Total current assets	<u>31,375,333</u>	<u>201,081</u>
Noncurrent Assets		
Investments	5,541,268	3,669,043
Capital assets, net of accumulated depreciation	43,000,457	2,525,411
Total noncurrent assets	<u>48,541,725</u>	<u>6,194,454</u>
Total assets	<u>\$ 79,917,058</u>	<u>6,395,535</u>
LIABILITIES		
Current Liabilities		
Payables and accrued liabilities	\$ 4,823,092	25,769
Accrued compensated absences	600,690	-
Deferred revenue	1,888,806	-
Bonds payable-current portion	845,000	-
Notes payable-current portion		216,684
Total current liabilities	<u>8,157,588</u>	<u>242,453</u>
Noncurrent Liabilities		
Accrued compensated absences	206,696	-
Bonds payable long-term portion	2,775,000	-
Assets held for others	-	308,080
Notes payable-long term portion	-	1,389,241
Total noncurrent liabilities	<u>2,981,696</u>	<u>1,697,321</u>
Total liabilities	<u>11,139,284</u>	<u>1,939,774</u>
NET ASSETS		
Invested in capital assets, net of debt	39,380,457	919,486
Restricted for		
Nonexpendable		
Restricted for scholarships and grants	5,786,584	3,705,824
Expendable		
Loans	1,311,823	-
Capital projects	11,581,043	-
Debt service	3,540,284	-
Unrestricted	7,177,583	(169,549)
Total net assets	<u>68,777,774</u>	<u>4,455,761</u>
Total net assets and liabilities	<u>\$ 79,917,058</u>	<u>6,395,535</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2007**

	Primary Government	Component Unit
Operating revenues		
Tuition and fees	\$ 8,639,273	-
Tuition discounts and allowances	(1,052,639)	-
	<hr/> 7,586,634	
Federal grants and contracts	9,354,604	-
State and local grants and contracts	4,494,562	-
Private grants and contracts	1,814,473	-
State land, permanent fund and investment income	444,437	396,928
Sales and services of auxiliary enterprises	2,950,052	-
Contributions	-	1,368,295
Other	508,556	581,021
Total operating revenues	<hr/> 27,153,318	<hr/> 2,346,244
Expenses		
Instruction and general		
Instruction	15,000,521	-
Academic support	2,530,580	-
Student services	3,355,382	-
Institutional support	5,434,194	-
Operations and maintenance support	4,913,155	-
	<hr/> 31,233,832	-
Student social/cultural development	709,007	-
Research	2,206,197	-
Public service	8,501,792	-
Student aid grants and stipends	6,085,909	196,519
Tuition discounts and allowances	(1,052,639)	-
Auxiliary enterprises	2,630,205	-
Athletics	1,841,351	-
Other expenditures	437,480	1,248,800
Depreciation	5,216,003	57,699
Total expenses	<hr/> 57,809,137	<hr/> 1,503,018
Operating (loss) income	<hr/> (30,655,819)	<hr/> 843,226

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (CONTINUED)
Year Ended June 30, 2007**

	Primary Government	Component Unit
Non operating revenues (expenses)		
State appropriations	\$ 32,563,222	-
Interest and investment income	1,535,228	-
Net nonoperating revenues	<u>34,098,450</u>	<u>-</u>
Income before other revenues, expenses, gains and losses	<u>3,442,631</u>	<u>843,226</u>
Other		
Loss on disposition of capital assets	-	-
Capital grants and gifts, net	1,448,131	-
Increase in net assets	<u>4,890,762</u>	<u>843,226</u>
Net assets		
Net assets - beginning of year	63,887,012	3,612,535
Adjustment to capital assets	<u>-</u>	<u>-</u>
Net assets, beginning of year, as adjusted	<u>63,887,012</u>	<u>3,612,535</u>
Net assets, end of year	<u>\$ 68,777,774</u>	<u>4,455,761</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2007**

	Primary Government	Component Unit
Cash Flows From Operating Activities		
Contributions	\$	935,095
Tuition and fees	6,165,067	-
Grants and contracts	12,724,877	-
Sales and services of educational activities	3,232,259	-
Other operating receipts	2,493,608	398,702
Payments to employees for salaries and benefits	(30,636,494)	-
Payments to suppliers	(22,045,098)	(850,874)
Net cash (used) provided by operating activities	<u>(28,065,781)</u>	<u>482,923</u>
Cash Flows From Noncapital Financing Activities		
State appropriations	32,563,222	
Capital grants	1,448,131	-
Net cash provided by noncapital financing activities	<u>34,011,353</u>	<u>-</u>
Cash Flows From Investment Activities		
Purchases of investments	(559,295)	(353,907)
Sales of investments	-	-
Unrealized gain on assets	(334,865)	
Interest received on investments	1,535,228	101,556
Net cash (used) provided by investment activities	<u>641,068</u>	<u>(252,351)</u>
Cash Flows From Capital and Related Financing Activities		
Cash paid for capital assets	(3,441,719)	
Repayments of bonds payable	(805,000)	-
Proceeds from Note Payable	-	(188,794)
Repayments of notes and capital lease payable	-	-
Net cash used by capital and related financing activities	<u>(4,246,719)</u>	<u>(188,794)</u>
Net increase in cash and cash equivalents	2,339,921	41,778
Cash and cash equivalents, beginning of year	<u>20,209,692</u>	<u>6,417</u>
Cash and cash equivalents, end of year	<u>\$ 22,549,613</u>	<u>48,195</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2007**

	Primary Government	Component Unit
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating (loss) income	\$ (30,655,819)	843,226
Adjustments to reconcile operating (loss) income to net cash used by operating activities		
Depreciation expense	5,216,003	57,698
Unrealized gain/loss on investments	-	(310,846)
Loss on disposal of assets		-
Changes in assets and liabilities		
Receivables	(2,394,709)	(93,972)
Inventories	(217,758)	-
Other assets	(83,607)	(664)
Accounts payable and accrued expenses	270,948	(9,174)
Deferred revenue	(142,798)	-
Investment and interest income	-	11,493
Compensated absences	(58,041)	-
	<hr/>	<hr/>
Net cash (used) provided by operating activities	\$ (28,065,781)	497,761

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. New Mexico Highlands University (University) formerly known as New Mexico Normal University, was established in 1893 when New Mexico was still a territory. The institution began operations in October 1898 and in 1917, the institution became a four-year teacher training college awarding the Bachelor of Arts degree. Graduate work in certain departments, leading to the degrees of Master of Arts and Master of Science, were added in the late 1920's and the mid-1950's, respectively. In 1941, the New Mexico Legislature changed the name of the institution to New Mexico Highlands University.

The University's campus, including its golf course, encompasses approximately 176 acres in Las Vegas, in the northeastern portion of New Mexico.

Students at the University receive bachelor's degrees under the Bachelor of Arts, Bachelor of Science, Bachelor of Social Work or Bachelor of Science in Engineering curricula in many major fields. Graduate programs leading to the Master of Arts degree are offered in Public Affairs (with concentrations in Political and Governmental Processes, Social and Organizational Processes, Economic Processes, and Historical and Cross-Cultural Perspectives), Southwest Studies (with concentrations in Anthropology, History/Political Science, and Hispanic Language and Literature), Human Performance and Sport, and Education (with concentrations in Counseling and Guidance, School Counseling, Educational Leadership, Special Education, and Curriculum and Instruction). Master of Science degrees are offered in Life Science, Applied Chemistry, and Psychology; as well as the Masters of Business Administration and the Masters of Social Work graduate programs.

The University offers a two-year program of study in Elementary Education.

Pre-professional programs are available in Medicine, Dentistry, Veterinary, Pharmacy, Medical Technology, Forestry and Law for students planning to enter professional schools.

The University is controlled and managed by a Board of Regents consisting of five members appointed by the Governor, by and with the advice and consent of the New Mexico Senate, for a term of six years, except for the Student Representative, which 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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Regents has full and complete power and control over the University and employs a President who has the supervision and control of the University under such rules and regulations as may be provided by the Board. The Board of Regents determines and provides as to what branches of learning shall be taught, directs the number of teachers that shall be employed, and determines the compensation to be paid to the President and teachers. Such Board also prescribes upon what terms and conditions pupils shall be admitted, but no pupils shall be admitted who are not residents of this state, except on payment of a tuition fee prescribed by the Board of Regents for each term.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Reporting Entity. In May 2002, Governmental Accounting Standards Board issued Statement No 39. The statement established standards for identifying a component unit through evaluation of the reporting entity and significance of certain related party transactions, defined as potential component units. In evaluating how to define the University for financial reporting purposes, management has evaluated the University's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is the responsibility which includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the University. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the University is able to exercise oversight responsibilities. Based on the application of these criteria, the following is a brief review of each potential component unit addressed in defining the University's reporting entity.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the University. The decision to include a potential component unit in the University's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following discretely presented component unit is included in these financial statements:

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

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

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

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

Procedures for Approval of Operating Budgets

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

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

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Accompanying Schedule of Budget and Actual – Current and Plant Funds, for year ended June 30 2007, (the “schedule”) is prepared on the basis of accounting prescribed by the State of New Mexico, Higher Education Department (the Department). The Department requires budgets for current restricted, current unrestricted and plant fund revenues and expenditures on a basis consistent with the financial reporting model used by the University prior to implementation of GASB Statements No. 34 and 35. Additions to capital assets and debt principal retirements are reported as expenditures on the budget basis, but not on the basis required by generally accepted accounting principles (GAAP). Depreciation expense, scholarship allowance, Perkins Loans/Endowment Scholarship and Endowment/Agency expenditures are GAAP requirements not included on the budget basis submitted to HED.

The University did not comply with NMAC 5.3.4.10. The University overspent it approved budget in the following categories:

<u>Unrestricted Funds</u>		<u>Restricted Funds</u>	
Internal Service Department	\$ 7,125	Internal Service Department	\$ 4,660
Auxiliary Enterprises	\$73,100	Student Aid	\$94,657
		Intercollegiate athletics	\$ 394

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

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

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

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, and consistent with the provisions under Section 501(c)(3) of the Internal Revenue Code.

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

Deferred Income. Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May 2007 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2007. Deferred revenues also include amounts received from grant and contract sponsors that have not been earned.

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

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

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

Compensated Absences. The University accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. The current portion of the accumulated vacation leave is calculated as an average of the annual leave taken for the last five years. Accrued vacation up to 160 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).

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Invested in Capital Assets, Net of Related Debt. This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

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

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

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

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

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

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

NOTE 2. CASH AND CASH EQUIVALENTS

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

	<u>Component Unit</u>	
	New Mexico Highlands University	NMHU Foundation
Bank Deposits	\$19,408,674	\$ 48,195
State Treasurer Local Government Investment Pool	<u>4,332,766</u>	
	<u>23,741,440</u>	<u>\$ 48,195</u>

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 2. CASH AND CASH EQUIVALENTS

As of June 30, 2007, \$4,949,039 of the government's bank balance of \$23,741,440 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$4,949,039</u>
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The Foundation is not required to follow State Statutes and therefore no collateralization is required. As of June 30, 2007, none of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

Credit Risk. The University has money market funds that are considered cash. As of June 30, 2007, the University's money market accounts are backed by commercial paper and other debt instruments that are rated AAA by Moody's Investor Service.

New Mexico State Treasurer Local Government Investment Pool - As of June 30, 2007, the State Treasurer Investment Pool was paying the University 5.25 percent per annum. The interest rate is determined by the State Treasurer. The following applies to the State Treasurer Investment Pool:

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

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

The pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the perspective amounts deposited in the fund and the length of time the amounts fund were invested; and participation is voluntary. The State Treasurers rating of investments are for an average maturity of 24 days and the rating is AAAM by Standard & Poor's.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 3. INVESTMENTS

At June 30, 2007, investments of the University and its components units are summarized as follows:

	<u>Component Unit</u>	
	New Mexico Highlands University	New Mexico Highlands Foundation
State Investment Council	\$ 2,542,836	\$ -
State Investment Council (land grant)	2,998,432	-
Mutual Funds		237,160
Common Stocks		2,526,511
U.S. Obligations	-	310,854
U.S. Agency Obligations		86,969
International Bonds		20,784
U.S. Corporate Bonds	-	486,765
Total	<u>\$ 5,541,268</u>	<u>\$ 3,669,043</u>

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

As of June 30, 2007 the Foundation had the following investments subject to investment rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
U.S. Obligations	310,854	4.59
U.S. Agency Obligations	86,969	4.48
International Bonds	20,784	17.08
U.S. Corporate Bonds	<u>486,765</u>	8.73
	<u>905,372</u>	
Portfolio weighted average maturity		7.53

Credit Risk. The University has an investment policy that requires an allocation percentage of 75% of the funds will be invested in equities and 25% in fixed income securities. As of June 30, 2007, the University's investment in the state investment pool fixed income funds consists of the Core Bond Fund, which consists of commercial paper and other debt instruments that are rated between AA-2 and AA S&P by Moody's Investors Service. The University is also invested in the High Yield Bond Fund that invest in Bonds and commercial paper averaging a rating between a BA-2 and BA-3 range.

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 June 30, 2007**

The Foundation investments subject to credit risk are as follow:

U.S. Corporate Bonds:

<u>Rating</u>	<u>Fair Value</u>
AAA	24,599
AA	155,910
A	216,298
BAA	43,606
BA	13,665
BBB	<u>32,687</u>
	<u>486,765</u>

International Bonds:

<u>Rating</u>	<u>Fair Value</u>
A	8,736
BAA	5,163
BBB	<u>6,885</u>
	<u>20,784</u>

U.S. Agency Obligations

<u>Rating</u>	<u>Fair Value</u>
AAA	<u>86,969</u>

The endowment spending policy is in concert with the long term endowment management philosophy of the of the University, which is to preserve the permanent viability of the endowment. The University supports vital scholarship and other programs from earning of its endowment. These programs are in concert with provisions established by donors of the endowment.

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase in temporarily restricted net assets until the amount is expended in accordance with donor specifications and in accordance with the State of New Mexico Uniform Management of Institutional Funds Act (Chapter 46, Article 9, NMSA 1978). During the current year, donor-restricted endowments had net appreciation of \$396,264 and investment income of \$101,556.

NOTE 4. THIRD PARTY AND OTHER RECEIVABLES

Third Party Receivable in the amount of \$1,163,283 consists of \$1,079,544 from the Perkins Loan Fund, and \$83,739 from Athletics . Other receivables in the amount of \$1,998,447 consist of \$1,919,083 from the Plant Fund, and \$79,364 from agency funds. These receivables are 100% collectable.

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NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Following are the changes in capital assets for the University for the year ended 30 June 2007:

	Balance 30 June 2006	Additions	Retirements	Balance 30 June 2007
Capital assets not being depreciated				
Land	\$2,041,632			\$2,041,632
Artwork	143,300		71,650	71,650
Construction-in-progress	1,712,637		1,094,996	617,641
Total capital assets not being depreciated	\$3,897,569	0	1,166,646	\$2,730,923
Other capital assets				
Land improvements	\$4,963,643	2,377,875		\$7,341,518
Buildings	78,492,839	585,392		79,078,231
Furniture, fixtures and equipment	15,924,458	412,499	242,703	16,094,254
Library materials	7,408,315	413,243	98,576	7,722,982
Total other capital assets	106,789,255	3,789,009	341,279	110,236,985
Less accumulated depreciation for				
Land improvements	2,299,039	433,427		2,732,466
Buildings	45,815,098	2,872,943		48,688,041
Furniture, fixtures and equipment	10,973,788	1,639,363	366,514	12,246,637
Library materials	6,128,613	270,270	98,576	6,300,307
Total accumulated depreciation	65,216,538	5,216,003	465,090	69,967,451
Other capital assets, net	\$41,572,717	(1,426,994)	(123,811)	\$40,269,534
Capital assets summary:				
Capital assets not being depreciated	\$3,897,569	0	1,166,646	\$2,730,923
Other capital assets	106,789,255	3,789,009	341,279	110,236,985
Total cost of capital assets	110,686,824	3,789,009	1,507,925	112,967,908
Less accumulated depreciation	65,216,538	5,216,003	465,090	69,967,451
Capital assets, net	\$45,470,286	(1,426,994)	1,042,835	\$43,000,457

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 6. ACCRUED LIABILITIES

The \$4,823,092 amount consists of \$2,507,877 from Accounts Payables, \$2,315,215 from Accrued Payroll.

NOTE 7. LONG-TERM LIABILITIES

Long-term liability activity for the University for the year ended June 30, 2007, is as follows:

	Balance <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>	Amount Due Within <u>One Year</u>
Bonds payable	<u>\$4,425,000</u>	<u>\$ -</u>	<u>\$805,000</u>	<u>\$3,620,000</u>	<u>\$845,000</u>
Accrued Compensated balances	<u>\$ 658,731</u>	<u>\$807,386</u>	<u>\$658,731</u>	<u>\$ 807,386</u>	<u>\$600,690</u>

NOTE 8. BONDS PAYABLE – REFUNDING AND CONSTRUCTION

Long-term debt consists of System Refunding Revenue Bonds, Series 1998, originally issued for \$9,150,000. The outstanding bonds are due in annual installments varying through the year 2011. The carrying interest rates range from 4.50% to 4.70%.

The bonds are payable solely from and secured by a pledge of and an irrevocable first lien on the University’s pledged revenues. The pledged revenues consist primarily of revenues received from the operation of the revenue producing facilities of the University. Pledged revenues also include (i) the gross proceeds of the collection of student tuition and fees (with certain exceptions), (ii) the gross income received by the University from the “Income from the Permanent Fund” and the “Income from the Income Fund”, (iii) the proceeds of legally available revenues received in the form of grants from the United States government or any of its agencies and proceeds of interest subsidies with respect to the Bonds received by the University, and (iv) certain other revenues derived from sources other than ad valorem taxation and appropriations.

Debt service amounts for future fiscal years is as follows:

	Principal	Interest	Ending June 30,
2008	845,000	165,755	1,010,755
2009	885,000	127,730	1,012,730
2010	925,000	87,905	1,012,905
2011	<u>965,000</u>	<u>45,355</u>	<u>1,010,355</u>
	<u>\$ 3,620,000</u>	<u>426,745</u>	<u>4,046,745</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 9. 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. Liability and civil rights protection for claims made by others against the University.
2. Coverage to protect the University's property and assets.

NOTE 10. EMPLOYEE BENEFITS

Plan Description. Substantially all of the New Mexico Highlands University full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits and cost-of-living adjustments to plan members and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERB, PO Box 26129, Santa Fe, New Mexico 87502.

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, 2007, was \$14,370 which has been charged to expenditures.

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

**STATE OF NEW MEXICO
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NOTE 10. EMPLOYEE BENEFITS (CONTINUED)

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

A member is eligible to retire when:

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

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

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

Funding Policy. Plan members are required to contribute 7.75% of their gross salary. The University is required to contribute 10.15% of the gross covered salary. The contribution requirements of plan members and the University are established in Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The University’s contributions to ERA (including employee portion) for the years ending June 30, 2007, June 30, 2006, and June 30, 2005 were \$3,199,294, \$3,040,195, and \$2,768,480, respectively, equal to the amount of the required contribution for each year.

Health Insurance. The Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments out of pocket payments by eligible retirees.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 10. EMPLOYEE BENEFITS (CONTINUED)

Eligible employers are institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act or the Magistrate Retirement Act, or Public Employees Retirement Act.

Eligible retirees are those who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement. Eligible retirees are also those retirees defined by the Act who retired prior to July 1, 1990; and former legislatures who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution in an amount equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and additional participant fee of five dollars (\$5.00) if eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

The Retiree Health Care Authority issues a separate, publicly, available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd., Suite 104, Albuquerque, NM 87107.

The University remitted \$268,888 and \$258,128 in employer contributions for years ended June 30, 2007 and June 30, 2006.

For the fiscal year June 30, 2008, the Retiree Health Care Authority is required to implement Government Accounting Standards Board Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions [OPED]. This Statement establishes standards for the measurement, recognition, and display OPED, expense/expenditures and related liabilities (assts), note disclosures and if applicable, required supplementary information in the financial reports of state and local government employees. Retiree Health Care Authority and the University cannot determine the impact this will have on their financial statements.

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan. With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 7.15% to the carrier selected by the employee. The employee contributes 7.75% of his/her gross salary to the carrier they select. Contributions by the University totaled \$64,138 to the ERA for the alternative plan and \$165,661 to the various carriers for the year ended June 30, 2007. Employees contributed \$173,770 to the various carriers under the alternative plan during the year ended June 30, 2007.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007**

NOTE 11. LEASES

At June 30, 2007, the University had various operating lease arrangements summarized as follows:

Operating Leases. Rent expense for operating leases amounted to \$1,079,982 for the year ended June 30, 2007.

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2007:

Year Ending June 30,	Operating Leases
2008	\$ 918,395
2009	755,636
2010	543,806
2011	370,008
2012-2016	1,850,040
2017-2021	<u>1,850,040</u>
	<u>\$ 6,287,925</u>

NOTE 12. COMMITMENTS AND CONTINGENCIES

At June 30, 2007, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	<u>\$ 727,791</u>
Plant Funds	<u>\$ 4,754,661</u>

Contingencies. Reimbursements for amounts expended by the University under the terms of a federal grant are subject to audit and possible adjustments by the granting agency. Grants and contracts for the years ended June 30, 2000 and 2001, are pending results of an audit performed a federal agency. It is the opinion of University management that adjustments may have a material effect on the University's financial position or results of operations. At present the University is negotiating with the funding agency to determine the actual amount.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007**

NOTE 12. COMMITMENTS AND CONTINGENCIES

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

1. Liability and civil rights protection for claims made by others against the University.
2. Coverage to protect the University's property and assets.

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

NOTE 13. RECONCILIATION OF BUDGET BASIS TO GAAP

Budget basis expenditures	\$ 57,997,267
Capital expenditures	(3,971,110)
Depreciation	5,216,003
Scholarship allowance	(1,052,639)
Perkins Loans/Endowment Scholarships	225,903
Endowment/Agency Expenditures	198,713
Bond payments	<u>(805,000)</u>
Expenses per GAAP	<u>\$ 57,809,137</u>

NOTE 14. FOUNDATION CASH AND CASH EQUIVALENTS

In accordance with GASB Statement No. 3, the following table provides information concerning the level of risk assumed by the University at year-end. Actual bank balances are shown because they reflect the current relationship between the deposits and corresponding collateral.

	Federally Insured	Insured and Collateralized	Uninsured and Un- Collateralized	Total Depository Balances
Demand deposits	<u>\$ 48,195</u>	<u>-0-</u>	<u>-0-</u>	<u>48,195</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 15. FOUNDATION PROPERTY, PLANT AND EQUIPMENT

Following are the changes in capital assets for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Transfers	Retirements	Balance June 30, 2007
Capital assets not being depreciated					
Land	\$ 794,460	-	-	-	794,460
Other capital assets					
Buildings	2,250,237	-	-	-	2,250,237
Less accumulated depreciation for					
Buildings	461,588	57,698	-	-	519,286
Other capital assets, net	<u>\$ 1,788,649</u>	<u>(57,698)</u>	<u>-</u>	<u>-</u>	<u>1,730,951</u>
Capital assets summary					
Capital assets not being depreciated	\$ 794,460	-	-	-	794,460
Other capital assets, at cost	2,250,237	-	-	-	2,250,237
Total cost of capital assets	3,044,697	-	-	-	3,044,697
Accumulated depreciation	(461,588)	(57,698)	-	-	(519,286)
Capital assets, net	<u>\$ 2,583,109</u>	<u>(57,698)</u>	<u>-</u>	<u>-</u>	<u>2,525,411</u>

NOTE 16. FOUNDATION LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year
Notes payable	<u>\$1,794,711.</u>	<u>\$ -</u>	<u>\$(188,786)</u>	<u>\$1,605,925</u>	<u>\$216,684</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 17. FOUNDATION NOTES PAYABLE

The Foundation has a note payable with a bank the purpose of which was used to pay off existing real property and building indebtedness.

Seven year note with a bank, payable on
July 30, 2013 with 72 monthly payments
of \$27,000 and one irregular last payment
of \$41,289 at .25% above prime.

The note is secured with building and land.

\$ 1,605,925

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

2007	216,684
2008	232,862
2009	249,937
2010	268,264
2011	287,847
2012	309,042
2013	<u>41,289</u>
	<u>\$ 1,605,925</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
COMBINED REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 14,310,918	17,012,725	17,012,725	-
Unrestricted & Restricted Revenues:				
State general fund appropriations	32,092,164	32,092,164	32,003,222	(88,942)
Federal revenue sources	9,638,136	8,694,312	7,981,954	(712,358)
Tuition and fees	6,422,394	6,946,080	7,233,579	287,499
Land and permanent fund	160,000	445,443	444,437	(1,006)
Private grants/contracts	1,900,813	2,735,906	1,621,253	(1,114,653)
Sales & Service	2,742,167	2,895,117	3,232,259	337,142
Government grants - state	19,146,356	7,218,081	7,698,924	480,843
Endowments and private gifts	-	-	-	-
Other	2,054,000	2,518,000	2,817,289	299,289
Total revenues	74,156,030	63,545,103	63,032,917	(512,186)
Total Unrestricted & Restricted Revenues	88,466,948	80,557,828	80,045,642	(512,186)
Unrestricted & Restricted Expenditures				
Instruction and general	34,930,650	32,068,697	31,415,932	(652,765)
Student social and cultural	551,456	713,741	709,007	(4,734)
Research	3,619,918	2,678,732	2,206,197	(472,535)
Public service	8,161,376	9,707,811	8,501,792	(1,206,019)
Internal service departments	73,683	147,744	159,529	11,785
Student aid	5,992,677	6,175,346	5,860,006	(315,340)
Auxiliary enterprises	2,382,997	2,366,980	2,438,252	71,272
Intercollegiate athletics	1,880,894	1,910,723	1,841,351	(69,372)
Capital outlay	17,660,000	5,000,000	3,050,729	(1,949,271)
Renewal and replacements	1,880,775	1,142,506	752,812	(389,694)
Retirement of indebtedness	1,025,737	1,061,857	1,061,659	(198)
Total Unrestricted & Restricted Expenditures	78,160,163	62,974,137	57,997,266	(4,976,871)
Net Transfers	-	-	-	-
Change in net assets-budgetary basis	(4,004,133)	570,966	5,035,651	4,464,685
Ending Fund Balance	\$ 10,306,785	17,583,691	22,048,376	4,464,685

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 5,137,909	8,291,606	8,291,606	-
Revenues				
Tuition	5,865,482	6,370,070	6,249,674	(120,396)
Miscellaneous fees	556,912	576,010	983,905	407,895
Government appropriations-federal	-	-	-	-
Government appropriations-state	32,092,164	32,092,164	32,003,222	(88,942)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	14,919,230	2,512,232	2,512,674	442
Contracts - local	-	-	-	-
Private grants/contracts	-	37,500	35,593	(1,907)
Endowments	-	-	-	-
Land and permanent fund	160,000	445,443	444,437	(1,006)
Private gifts	-	-	-	-
Sales & service	2,742,167	2,895,117	3,232,259	337,142
Other sources	2,054,000	2,518,000	2,817,289	299,289
Total revenues	<u>58,389,955</u>	<u>47,446,536</u>	<u>48,279,053</u>	<u>832,517</u>
Total Unrestricted Revenues	<u>63,527,864</u>	<u>55,738,142</u>	<u>56,570,659</u>	<u>832,517</u>
Unrestricted Expenditures				
Instruction and general	33,562,963	30,525,847	30,221,160	(304,687)
Student social and cultural	508,746	668,095	666,921	(1,174)
Research	688,971	688,971	601,394	(87,577)
Public service	1,549,242	2,170,777	1,670,748	(500,029)
Internal service departments	48,550	126,022	133,147	7,125
Student aid	1,256,677	1,256,677	846,680	(409,997)
Auxiliary enterprises	2,339,671	2,339,672	2,412,772	73,100
Intercollegiate athletics	1,872,756	1,895,146	1,825,380	(69,766)
Independent operations	-	-	-	-
Capital outlay	17,660,000	5,000,000	3,050,729	(1,949,271)
Renewal and replacements	1,880,775	1,142,506	752,812	(389,694)
Retirement of indebtedness	1,025,737	1,061,857	1,061,659	(198)
Total Unrestricted Expenditures	<u>62,394,088</u>	<u>46,875,570</u>	<u>43,243,402</u>	<u>(3,632,168)</u>
Net Transfers	2,545,185	8,506,964	8,506,964	-
Change in Fund Balance (budgetary basis)	<u>(6,549,318)</u>	<u>(7,935,998)</u>	<u>(3,471,313)</u>	<u>4,464,685</u>
Ending Fund Balance	<u>\$ (1,411,409)</u>	<u>355,608</u>	<u>4,820,293</u>	<u>4,464,685</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 2,789,925	5,505,134	5,492,781	(12,353)
Revenues				
Tuition	5,636,040	6,120,130	6,249,674	129,544
Miscellaneous fees	229,442	249,940	397,617	147,677
Government appropriations-federal	-	-	-	-
Government appropriations-state	28,401,564	28,401,564	28,363,343	(38,221)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	160,000	445,443	444,437	(1,006)
Private gifts	-	-	-	-
Sales & service	70,000	140,000	140,669	669
Other sources	1,795,000	2,240,000	2,412,910	172,910
Total revenues	<u>36,292,046</u>	<u>37,597,077</u>	<u>38,008,650</u>	<u>411,573</u>
Total Unrestricted Revenues	<u>39,081,971</u>	<u>43,102,211</u>	<u>43,501,431</u>	<u>399,220</u>
Expenditures				
Instruction	16,529,791	14,355,046	14,203,340	(151,706)
Academic support	2,729,839	2,800,616	2,573,981	(226,635)
Student services	3,098,533	3,070,249	3,140,471	70,222
Institutional support	6,044,758	5,131,812	5,407,004	275,192
Oper. & maint. of plant	5,168,124	5,168,124	4,896,364	(271,760)
Total expenditures	<u>33,571,045</u>	<u>30,525,847</u>	<u>30,221,160</u>	<u>(304,687)</u>
Net Transfers	3,295,977	10,342,912	8,506,964	(1,835,948)
Change in net assets-budgetary basis	<u>(574,976)</u>	<u>(3,271,682)</u>	<u>(719,474)</u>	<u>2,552,208</u>
Ending Fund Balance	<u>\$ 2,214,949</u>	<u>2,233,452</u>	<u>4,773,307</u>	<u>2,539,855</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
RESTRICTED CURRENT FUNDS
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	9,638,136	8,694,312	7,981,954	(712,358)
Government grants - state	4,227,126	4,705,849	5,186,250	480,401
Contracts - local	-	-	-	-
Private grants/contracts	1,900,813	2,698,406	1,585,660	(1,112,746)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	15,766,075	16,098,567	14,753,864	(1,344,703)
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	15,766,075	16,098,567	14,753,864	(1,344,703)
Expenditures				
Instruction and general	1,367,687	1,542,850	1,194,772	(348,078)
Student social and cultural	42,710	45,646	42,086	(3,560)
Research	2,930,947	1,989,761	1,604,803	(384,958)
Public service	6,612,134	7,537,034	6,831,044	(705,990)
Internal service departments	25,133	21,722	26,382	4,660
Student aid	4,736,000	4,918,669	5,013,326	94,657
Auxiliary enterprises	43,326	27,308	25,480	(1,828)
Intercollegiate athletics	8,138	15,577	15,971	394
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Total expenditures	15,766,075	16,098,567	14,753,864	(1,344,703)
Change in net assets-budgetary basis	\$ -	-	-	-

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
RESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	1,188,618	1,174,918	902,303	(272,615)
Government grants - state	146,302	353,356	353,615	259
Contracts - local	-	-	-	-
Private grants/contracts	23,946	14,576	(61,145)	(75,721)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	1,358,866	1,542,850	1,194,773	(348,077)
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	1,358,866	1,542,850	1,194,773	(348,077)
Expenditures				
Instruction	1,163,631	1,236,787	979,280	(257,507)
Academic support	41,876	27,620	(43,401)	(71,021)
Student services	107,661	230,286	214,911	(15,375)
Institutional support	25,412	29,452	27,190	(2,262)
Oper. & maint. of plant	20,286	18,705	16,793	(1,912)
Total expenditures	1,358,866	1,542,850	1,194,773	(348,077)
Change in net assets-budgetary basis	\$ -	-	-	-

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
 Year Ended June 30, 2007

Schedule 1
 Page 1 of 4

	Pledged Collateral		Bank of Las Vegas Las Vegas, NM	Wells Fargo Albuquerque NM	State Treasurer Santa Fe, NM	Total
	Safekeeping Location	Type of Security				
Funds on deposit						
Demand deposits			\$ 2,325,472	17,083,202	4,332,766	23,741,440
FDIC insurance						
Demand deposits			(100,000)	(100,000)	-	(200,000)
Total uninsured public funds			\$ 2,225,472	16,983,202	4,332,766	23,541,440
Fifty percent collateral requirement per section 6-10-17 NMSA			1,112,736	8,491,601	N/A (See Note 2)	9,604,337
Pledged collateral						
	Federal Home Loan Bank Dallas Tx	Treasury Note CUSIP #912828EK2	299,367	-		-
		Treasury Note CUSIP #912828EG1	531,438	-		
		Treasury Note CUSIP #912828AH3	997,810			
		Treasury Note CUSIP #31331XJR4	196,876			
	Federal Reserve Bank	Treasury Note CUSIP #31371MNG8	-	399,943		
		Treasury Note CUSIP #31385HXE7	-	223,855		
		Treasury Note CUSIP #31407HTY2	-	172,317		
		Treasury Note CUSIP #31407HZH2	-	221,617		
		Treasury Note CUSIP #31408BVE5	-	3,898,374		
		Treasury Note CUSIP #31408HCE3		1,754,682		
		Treasury Note CUSIP #31410DQA1		5,113,899		
		Treasury Note CUSIP #36202DPR6	-	304,303		
		Treasury Note CUSIP #36202DT76	-	145,157		
			2,025,491	12,234,147		
Deficiency / (Excess) of pledged collateral over the required amount			\$ (912,755)	(3,742,546)		

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
Year Ended June 30, 2007**

**Schedule 1
Page 2 of 4**

Name of Bank	Account Type	Balance Per Bank Statement	Reconciled Balance Per Books
Bank of Las Vegas			
Account payable account	Checking	\$ 1,588,522	418,876
Payroll account	Checking	659,235	527,065
University wire-transfer account	Checking	17,457	17,457
Cash receipts account	Checking	39,080	125,375
Cashier's credit card account	Checking	20,527	23,855
Direct lending account	Checking	650	650
Total		<u>2,325,471</u>	<u>1,113,278</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Checking	115,150	115,150
Rio credit card	Checking	54,173	54,718
Savings account	Checking	16,776,128	16,776,128
NMHU business	Checking	42,686	43,437
Online Payments	Checking	95,065	98,869
Total		<u>17,083,202</u>	<u>17,088,302</u>
State Treasurer's Office			
Local Government Investments	Pooled	<u>4,332,766</u>	<u>4,332,766</u>
Cash			
		<u>-</u>	<u>15,268</u>
Total cash and cash equivalents		<u>23,741,439</u>	<u>22,549,614</u>
Investments:			
University			
State Investment Council	Pooled	<u>2,542,836</u>	<u>2,542,836</u>
State Investment Council (land grant)	Pooled	<u>2,998,432</u>	<u>2,998,432</u>
Total Investments		<u>\$ 5,541,268</u>	<u>\$ 5,541,268</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
 Year Ended June 30, 2007

Schedule 1
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Foundation

Investments:

Cash and Money Market Funds	Pooled	<u>Amount</u> <u>237,160</u>
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Stocks

Common Stocks	<u>Amount</u> <u>2,526,512</u>
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US Government Securities

Name	Maturity Date	Amount	Interest Rate
US Treasury	2/28/2011	31,565	4.50%
US Treasury	8/15/2011	15,066	5.00%
US Treasury	2/15/2012	31,960	4.88%
US Treasury	11/15/2012	52,727	4.00%
US Treasury	8/15/2014	33,480	4.25%
US Treasury	2/15/2016	64,576	4.50%
US Treasury	1/15/2010	<u>81,480</u>	3.63%
Total Government Securities		<u>310,854</u>	

Name	Maturity Date	Amount	Interest Rate
U.S. Agency			
Fed Home Loan	9/15/2008	14,714	3.63%
Federal Home loan	7/15/2013	38,250	4.50%
Federal Natl Mtg Assn	5/15/2010	<u>34,005</u>	4.13%
Total U.S. Agency		<u>86,969</u>	

International Bonds

Name	Maturity Date	Amount	Interest Rate
Schlumberger LTD	6/1/2023	2,346	1.50%
Schlumberger LTD	6/1/2023	6,390	2.13%
Teva Pharmaceutical	2/1/2024	6,885	0.50%
Amdocs LTD	3/15/2024	<u>5,163</u>	0.50%
Total International Bonds		<u>20,784</u>	

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
Year Ended June 30, 2007

Schedule 1
Page 4 of 4

Foundation
Investments:

Corporate Bonds

Name	Maturity Date	Amount	Interest Rate
3m	11/21/2032	4,506	2.40%
Allergan	4/1/2026	4,230	1.50%
Alza Corp	7/28/2020	2,539	0.00%
American Finl Group	6/2/2033	5,344	1.49%
Amgen	2/1/2011	3,620	0.13%
Avner	3/15/2034	7,590	2.00%
Bank One	8/1/2008	20,117	6.00%
Bell South	10/15/2011	25,267	6.00%
Carnival Corp	4/15/2021	6,313	2.00%
Cisco Systems	2/22/2011	29,820	5.25%
Citigroup	7/29/2009	29,338	4.25%
Cooper Cameron	6/15/2026	7,298	2.50%
Danaher Corp	1/22/2021	4,415	0.00%
DST Systems	8/15/2023	3,375	4.13%
DST Systems	8/15/2023	3,295	3.63%
Dupont	10/15/2009	23,681	6.88%
Dupont	4/30/2010	1,928	4.13%
Electronic Data System	7/15/2023	6,075	3.88%
Emc corp	12/1/2011	10,100	1.75%
Fisher Scientific Intl	3/1/2024	5,710	3.25%
General Electric	9/15/2009	24,598	4.63%
Genzyme Corp	12/1/2023	6,300	1.25%
Goldman Sachs Group	5/15/2009	20,000	6.65%
HCC Insurance Holding	9/1/2021	4,706	2.00%
Hewlet Packard	10/14/2017	5,241	0.00%
Househol Finance	10/15/2011	25,688	6.38%
Intel Corp	12/15/2035	7,360	2.95%
International Business Machines	8/1/2007	24,940	6.45%
International Lease	9/1/2010	24,509	4.88%
Lockheed Martin	8/15/2033	8,060	5.16%
Manor Care	6/1/2036	5,440	2.00%
Medtronic	4/15/2011	7,420	1.50%
Merrill Lynch	7/25/2011	25,154	5.77%
Merrill Lynch	3/16/2032	6,135	0.00%
Molson Coors Brewing	7/30/2013	9,349	2.50%
Nabors Inds	6/15/2023	4,320	0.00%
Omni Group	7/1/2038	9,754	0.00%
Prudential Financial	12/12/2036	9,277	2.95%
Target	8/15/2010	15,821	7.50%
Tjx comp	2/13/2021	4,581	0.00%
Wal-mart	8/15/2010	19,580	4.75%
Walt Disney	4/15/2023	7,185	2.13%
Wyeth Flt Rt	1/15/2024	6,787	4.88%
Total Corporate Bonds		<u>486,765</u>	
Total Foundation Investments		<u><u>3,669,043</u></u>	

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended 30 June 2007**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
National Institute of Health			
Research and Development Cluster			
NIH/RIMI Mod I 10/04-9/05	93.307		\$ 257,092
NIH/RIMI Mod II 10/04-9/05	93.307		45,779
NIH/RIMI Mod III 10/04-9/05	93.307		102,146
NIH/RIMI Mod IV 10/04-9/05	93.307		91,790
NIH/RIMI Mod V 10/04-9/05	93.307		0
NIH/RIMI Mod VI 10/04-9/05	93.307		172,756
Total National Institute of Health			<u>669,563</u>
National Science Foundation			
NSF- MRI Acquisition 9/04-8/07	47.049		104,913
Total National Science Foundation			
Passed through New Mexico State University			
NMSU-INBRE Task III 07/04-06/05	93.389	Q00925	1,815
NMSU-INBRE Task I 7/05-6/06	93.389	Q01022	4,561
NMSU-INBRE Task III 7/05-6/06	93.389	Q01022	12,722
INBRE/Linder 7/06-4/07	93.389	Q01092	140,077
NMSU-INBRE Institutional 7/06-4/07	93.389	Q01092	31,517
INBRE/Sammeth 5/07-4/08	93.389	Q01092	10,777
Passed through Arizona State University			
WAESO FALL 2005 9/05-9/06	47.076	KMD5276-7-38/SUB	678
WAESO - Spring 2006 01/20/06-10/31/06	47.076	KMD5276-7-39/SUB	1,871
WAESO Summer 2006 5/06-10/06	47.076	KMD5276-7-40/SUB	744
WAESO Fall 2006 8/06-8/07	47.076	KMD5276-7-41/SUB	2,742
WAESO Spring 2007	47.076	KM20019-7-42	1,411
Passed through University of New Mexico			
NM Epscor RII 4/05-3/06	47.076	3-21301-7850	78,004
Passed through Arizona State University			
AAMU Research Institute 12/05-7/06	12.431	W911NF-05-1-04565-SUB 1	13,874
Total Research and Development Cluster			<u>1,075,269</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Year Ended 30 June 2007**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
US Department of Education			
Student Financial Aid Cluster			
Fed W/S - Instruction	84.033		\$ 108,903
Fed W/S - Academic Support	84.033		15,332
Fed W/S Student Services	84.033		56,024
Fed W/S - Institutional Support	84.033		5,123
Fed W/S - Operation & Maint.	84.033		10,138
Fed W/S - Social & Cultural	84.033		33,950
Fed W/S - Public Service	84.033		16,393
Fed W/S - Internal Service	84.033		24,615
Fed W/S - Auxiliaries	84.033		20,167
Fed W/S - Athletics	84.033		15,188
Fed W/S America Reads/America Count	84.033		6,035
Fed Off Campus W/S 2001-2002	84.033		14,394
Federal PELL 1999-2000	84.063		3,180,255
Federal SEOG 1999 - 2000	84.007		186,509
ACG	84.375		64,450
SMART	84.376		24,522
Total Student Financial Aid Cluster - US Department of Education			<u>3,781,998</u>
US Department of Education			
TRIO Programs Cluster			
Upward Bound 6/03 - 5/04	84.047A		633,526
Support Services 9/05-8/09	84.042A		493,833
Total TRIO Programs Cluster - US Department of Education			<u>1,127,359</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended 30 June 2007**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
US Department of Education			
Minority Science Engr 10/04-9/05	84.120A		\$ 178,359
US Dept Ed/CESDP/Gear up 9/05-8/11	84.334A		555,689
Dept Ed Rehab Counseling 8/04-7/05	84.129B		154,706
San Miguel GEAR-UP 9/03-9/04	84.334A		262,159
CAMP-College Assist. Migrant Prog	84.149A		106,044
CESDP/Career Ladder Yr 5 9/05-8/06	84.195E		183,874
Passed through New Mexico Public Education Department			
NMSDE-AP fee pmt prog 1/06-10/06	84.330B	06-924-P527-0095	75,350
Passed through Northern New Mexico Community College			
EOS/NNM/Title V 10/06-9/07	84.031S	41154-4201-122	110,971
Passed through Southwest Educational Development Laboratory			
CESDP/SEDL/TXCC 12/05 - 06/06	84.283B	PO NO.53628	95,299
CESDP/SEDL/SECC 12/05 - 06/06	84.283B	PO NO.53630	94,420
Total US Department of Education			<u>6,726,228</u>
DOC/PTFP/NMHU 10/05-3/07	11.550		<u>21,276</u>
Total US Department of Commerce			

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Year Ended 30 June 2007**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
DHHS/TCEG/SAMHSA	93.243		\$ 507,500
Passed Through NM Department of Children Youth and Families			
CYFD SW 7/06-6/07	93.658	JPA 07-690-6000-6002	1,626,095
Passed through NM Human Services Department			
Work Program 7/06-6/07	93.558	GSA 07-630-9000-0003	751,186
Passed through University of New Mexico			
PhD/Bridges Program 01-02	93.96	5544	50,541
Passed through National Youth Sports Program Fund			
NYSP Summer 2005 6/05 -7/06	93.570	NYSPF 06:032	5,437
NYSP Summer June 2007	93.570		2,669
Total US Department of Human Services			<u>2,943,428</u>
EPA\MBT Solid Waste 10/06-9/08	66.202		<u>7,241</u>
Total US Department of Enviornmental Protection Agency			
Passed through Cooperative State Research, Education and Extension Service			
USDA/SASE 7/06-7/09	10.223	2006-38422-17110	<u>78,367</u>
Total US Department of Agriculture			
Total Federal Awards expended			<u><u>10,851,809</u></u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
June 30, 2007**

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

The federal financial assistance of the University is included in the scope of the Single Audit, which was performed in accordance with the provisions of the Office of Management and Budget's Circular A-133, *Compliance Supplement for Audits of Institutions of Higher Learning and Other Not-for-Profit Institutions* (Compliance Supplement). Compliance testing of all specific requirements was performed, as described in the Compliance Supplement (April 2004).

NOTE 2. FISCAL PERIOD AUDITED

Single Audit testing procedures were performed for program transactions occurring during fiscal year June 30, 2007.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards includes all federal assistance to the University that had activity during 2007 or accrued revenue at June 30, 2007. This schedule has been prepared on the accrual basis of accounting. Revenues are recorded for financial reporting purposes when the Institute has met the qualifications for the respective program.

NOTE 4. STUDENT FINANCIAL ASSISTANCE

The University administers the Perkins Loan Program. Total outstanding loans under this US Department of Education program at June 30, 2007, were \$1,085,332. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2007, were \$307,429. The schedule of Federal Expenditures of Federal Awards only includes an amount, which represents administrative costs and additional advances for the year ended June 30, 2007.

During the fiscal year ended June 30, 2007, the University processed \$9,552,998 of new loans under the Stafford Loan Program and Parents' Loans for Undergraduate Students.

NOTE 5. OTHER DISCLOSURES

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



**Report 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***

Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the State of New Mexico, New Mexico Highlands University (the "University") and the University's budget comparisons as of and for the year ended June 30, 2007, and have issued our report thereon dated October 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 07-01 and 07-2.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that are required to be reported under Government Auditing Standards January 2007 revision paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and questioned costs as findings 03-17, 06-03, 06-07, 07-03 and 07-04.

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

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

Kardas, Abeyta & Wesner, P.C.

October 3, 2007



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

Board Of Regents
New Mexico Highlands University
Las Vegas, New Mexico

Compliance

We have audited the compliance of the State of New Mexico, New Mexico Highlands University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the University's internal control.

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

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

Kardas, Abeyta & Weiner, P.C.

October 3, 2007

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2007**

Finding	Status
03-17 - Budget Overspending	Repeated and Updated
05-02 - Level of Effort	Resolved
06-01 - Payroll	Resolved
06-02 – Travel and Per Diem	Resolved
06-03 – Inventory testing for central storage	Repeated and Updated
06-04 – Gear UP	Resolved
06-05 – Matching	Resolved
06-06 – Tutoring Services	Resolved
06-07 - Student Support Services	Repeated and Updated

NEW MEXICO HIGHLANDS UNIVERSITY
Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:
Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Type of auditors' report issued on compliance for major programs Unqualified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Cluster	Student Financial Aid Cluster
Cluster	Research and Development Cluster
Cluster	TRIO Cluster
93.658	Foster Care Title IV-E

Dollar threshold used to distinguish between type A and type B programs: \$325,554

Auditee qualified as low-risk auditee? Yes

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

SECTION II – FINANCIAL STATEMENT FINDINGS

03-17 Budget Overspending

CONDITION

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

Internal service department	\$ 7,125
Auxiliary enterprises	\$ 73,100

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

Internal service department	\$ 4,660
Student Aid	\$ 94,657
Intercollegiate athletics	\$ 394

CRITERIA

The University did not comply with NMAC 5.3.4.10. Adequate internal controls to prevent budget overspending should ensure that budgets are never exceeded by any amount. The point in the disbursement cycle in which the transaction should be cancelled if budget is not available is at the beginning with the purchase request.

CAUSE

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

EFFECT

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

The University concurs with this finding. The budget will be reviewed at mid-year and quarterly, thereafter, to determine adjustments to the original approved budget. Upon board approval the requests will be submitted to the Higher Education Department.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

06-03 – Inventory

CONDITION

During our reconciliation of year end inventory we found two instances where the count was not done correctly. We found one miscount and one instance where the item was not counted at all.

CRITERIA

An inventory count should be done with procedures in place to ensure a reliable count of the inventory items of the institution. Written procedures should indicate the responsibilities of each individual and the procedures to be followed during the inventory count

CAUSE

The personnel charged with performing the inventory did not make accurate counts.

EFFECT

Miscount of inventory could lead to misstatement of inventory on the financial statements.

RECOMMENDATION

For the inventory taking process we would recommend that two individuals perform a separate count on each item. This would ensure a more reliable count since the count will be confirmed by a second individual.

MANAGEMENT RESPONSE

The university concurs with the audit finding and has implemented written procedures which lists the responsibilities of each individual and the procedure to be followed during the inventory count. The procedures mandate that two separate counts are performed by two separate individuals to ensure a more reliable count. The procedures will include a reconciliation process between the two counts.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

06-07 Student Support Services

CONDITION

During our testing of the Student Support Services participant list we found five students (forty tested) who were listed incorrectly on the list. We noted three students without support proving their disability status. We also noted two students who were listed as first generation and low- income. However there was no proof of first generation status in their file.

CRITERIA

66% of Student Support Service students have to be low-income and first generation or disabled.

CAUSE

The Student Support Services list was completed with incorrect information. The Student Support Services program utilizes part-time student employees to compile and complete the information. These employees were not adequately trained at the time and this resulted in the list being completed with incorrect information.

EFFECT

Failure to comply with the 66% requirement could result in the grantor agency requesting that a portion of the grant be returned. However, after applying the error rate noted in the condition above, it was determined that the program was still in compliance with the Department of Education requirement.

RECOMMENDATION

Personnel responsible for the composition of the list should ensure that students are listed correctly on the list through verification of the supporting documentation.

MANAGEMENT RESPONSE

The university concurs with the finding. Personnel has reviewed and updated the files to ensure the documentation to support the list is correct.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

07-01 Student Support Services Disbursement

CONDITION

During our testing of the Student Support Service disbursements we found two purchase requests (twenty tested) that were not signed by the Vice-President for Finance and Administration.

CRITERIA

The purchase requests were for the purchase of computers and New Mexico Highlands University procurement policy (Purchasing and Accounts Payable Manual-Policy #9) states that the Vice President for Finance and Administration's signature is required when hardware is bought.

CAUSE

Due to clerical errors the documents were not checked for signature approvals.

EFFECT

The University was not in compliance with procurement policies and procedures. The University determined that signature approval by the Vice-President for Finance and Administration would assist in cost control in certain areas. Failure to follow these procedures could result in over expenditures.

RECOMMENDATION

Personnel responsible for the completion of controls as well as the initial purchase request form should thoroughly review documentation to ensure that they comply with all policies and procedures.

MANAGEMENT RESPONSE

The University concurs with the audit finding; the compliance staff will ensure that all documents for the purchase of computer software/hardware are signed by the appropriate staff as per the Purchasing and Accounts Payable Manual, Policy #9.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

07-02 Research and Development Disbursement

CONDITION

During our testing of the Research and Development disbursements we found one instance (thirty tested) where the items on the invoice did not agree with the items on the purchase order and the amount of the invoice was more than what was approved on the purchase order.

CRITERIA

When purchased items are received the invoice should match the purchase order with regards to description of items and approved amount.

CAUSE

Due to clerical errors the invoice was not compared to the purchase order upon receipt of good.

EFFECT

The University was not in compliance with procurement policies and procedures. As a result, the University could potentially purchase items which did not adhere to the grant provision. Violation of grant provision could result in loss of grant funding.

RECOMMENDATION

Personnel responsible for the completion of controls as well as the receipt of goods should thoroughly review documentation to ensure that they comply with all policies and procedures.

MANAGEMENT RESPONSE

The University concurs with the audit finding. Personnel responsible for receiving goods will ensure that the receiving report, invoice, and purchase order match.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

07-03 – Inventory

CONDITION

During our reconciliation of year end inventory we found two instances of non-compliance. The first instance is where the item count at year end was one, but on the final tabulation sheet that was used for the financial statement we found a count of two for this item. We also found an instance where a line item was not included in the final total for inventory.

CRITERIA

The University's count at year end of the inventory should agree with the numbers that are used for financial statement purposes.

CAUSE

Due to clerical errors, all of the proper information was not transferred to the final document used for financial statement purposes.

EFFECT

Due to the above errors the year-end inventory will be understated on the financial statements.

RECOMMENDATION

Personnel responsible for the inventory files should review relevant documentation to ensure that all forms are properly completed.

MANAGEMENT RESPONSE

NMHU concurs with the audit finding. Personnel responsible for inventory files will review the documentation to ensure that forms are properly completed.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

07-04 – Upward Bound

CONDITION

During our testing of the Upward Bound participant list we found two students (twenty five tested) who were listed incorrectly on the list. A student was listed as being only low-income when in fact the student should have been listed as only first generation. A second student was listed as being only first generation when in fact the student should have been listed as only low-income.

CRITERIA

66% of Upward Bound participants have to be low-income and potentially first generation.

CAUSE

The Upward Bound list was completed with incorrect information.

EFFECT

Failure to comply with the 66% requirement could result in the grantor agency requesting that a portion of the grant be returned.

RECOMMENDATION

Personnel responsible for the composition of the list should ensure that students are listed correctly on the list through verification of the supporting documentation.

MANAGEMENT RESPONSE

The university concurs with this finding. Extensive training in record management will be provided to ensure staff understands the importance of complying with the U. S. Department of Education's guidelines regarding eligibility of prospective Upward Bound participants. We will adhere to the two-thirds, one-third rule. We will demand that all program advisors keep accurate participant documentation.

SECTION III-FEDERAL AWARDS FINDINGS

NONE

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2007**

Exit conference was held on November 7, 2007 with the following in attendance:

University:

Javier M. Gonzales, Chairman, Board of Regents
Dr. James Fries, President
Mr. Steve Wilson, Vice President for Finance and Administrative Services
Ms. Grace Montoya, Controller
Jesus E. Baquera, Assistant Controller

Foundation:

Ms. Darlene Chavez, Finance Officer

Auditors

Gerald Kardas, CPA, Kardas, Abeyta & Weiner, P.C.