

STATE OF NEW  
MEXICO  
NEW MEXICO  
HIGHLANDS  
UNIVERSITY

FINANCIAL STATEMENTS  
JUNE 30, 2005

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY

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

**Official Roster**

**June 30, 2005**

**Board of Regents**

<b>Name</b>	<b>Title</b>
Javier M. Gonzales	Chair
Mari-Luci Jaramillo	Vice Chair
Walter Adams	Secretary/Treasurer
John Loehr	Member
Ricky Serna	Member

**Administrative Officials**

Manny M. Aragon	President
Janice Chavez	Interim Provost
Manu Patel	Interim Vice President Finance & Administrative Services
Clarence Sanchez	Interim Vice President Research, Planning, & Institutional Planning/Graduate Studies
Tino Pestalozzi	Controller

**KARDAS, ABEYTA & WEINER, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying basic financial statements of State of New Mexico New Mexico Highlands University (the "University") and each of its component units as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion 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 units 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 units. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2005, 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 basic financial statements referred to above present fairly, in all material respects, the net assets of the University as of June 30, 2005, and the changes in the net assets and cash flows, where applicable, thereof for the year then ended 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 21, 2005 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 read in conjunction with this report in considering 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.

The accompanying Schedules of Expenditures 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 schedules of budget comparisons and individual deposit accounts 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.

October 21, 2005

**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 2005 (FY05). 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 FY05, the University has made significant progress in its overall financial position and availability of working capital. For example, net assets increased 13.8 percent from \$49.8 million to \$56.7 million, and cash/cash equivalents increased by 64.5 percent from \$9.0 million to \$14.8 million. The enclosed financial statements and footnotes, in conjunction with budgetary projections for FY06, 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](http://www.nmhu.edu).)

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Discussion of Statement of Net Assets**

**Current assets** increased 25.4 percent during the year. The ending balance of \$21.6 million consists primarily of cash/cash equivalents (\$14.8 million) and receivables (\$5.4 million). Cash/cash equivalents increased 64.5 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 (\$83.0 million); and library books, equipment, vehicles, and furniture (\$22.7 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 \$44 million (\$105.9 million cost less \$61.9 million accumulated depreciation).

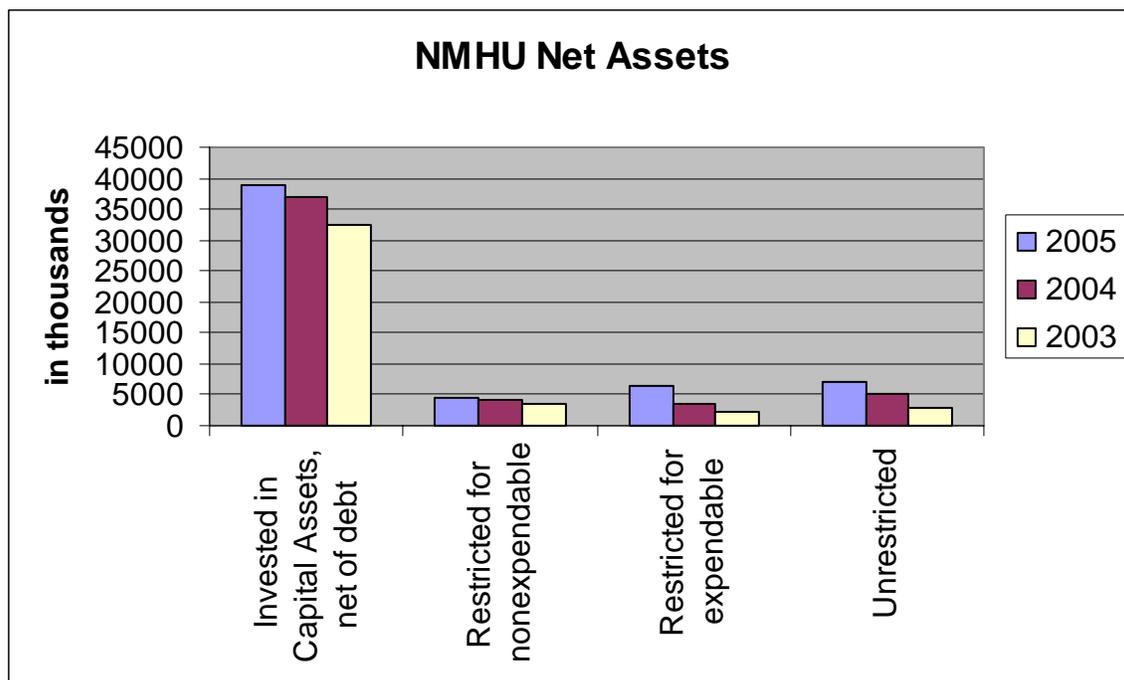
**Total liabilities** of \$13.2 million constitute 19 percent of total assets and consist primarily of payables/accrued liabilities (\$5.2 million), bonds/notes payable (\$5.2 million), and deferred revenue (\$2.8 million). The latter represents money that has been received from granting agencies, but not yet earned.

**Total net assets** increased by \$6.8 million, or 13.8 percent, during the year. (Over a two-year period, net assets increased \$15.5 million, or 37.7 percent). The ending balance of \$56.7 million is derived by deducting total liabilities from total assets and shows the composition of the University's equity. Restricted for nonexpendable (\$4.5 million) represents the University's endowment corpus, whereas restricted for expendable (\$6.4 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$6.9 million) are available to the University for any lawful purpose.

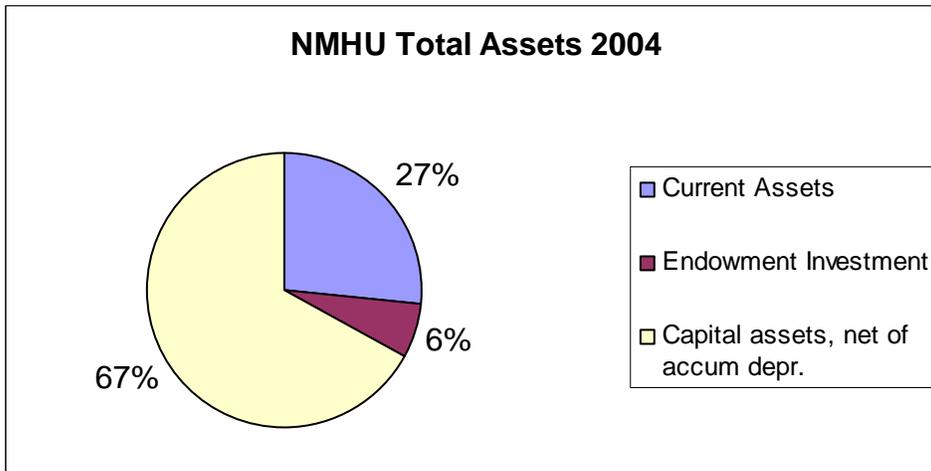
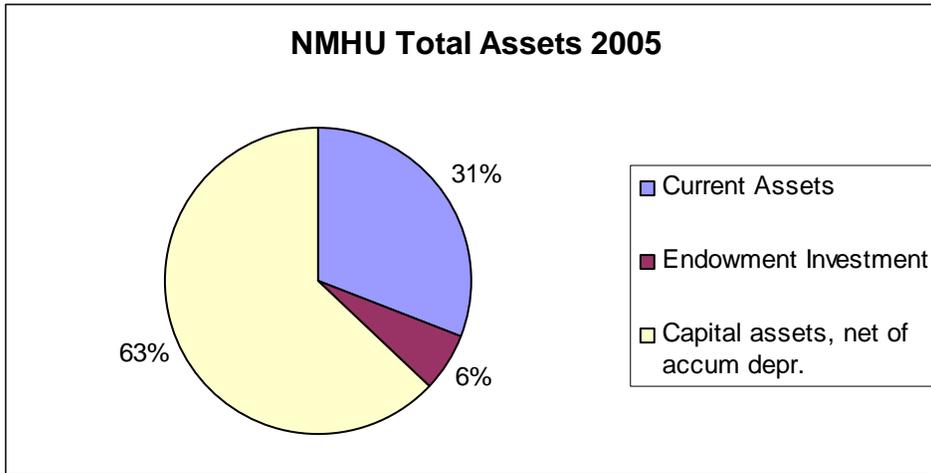
The **Foundation's net assets** increased \$0.2 million, from \$3 million to \$3.2 million, due to the fact that expenditures were kept below the revenue level.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

<b>Net Assets as of June 30, 2005 and 2004 (thousands)</b>		
	<b>2005</b>	<b>2004</b>
<b>Assets:</b>		
Current assets	\$21,554	\$17,190
Endowment investments	4,315	4,054
Capital assets, net of accum. depr.	44,008	42,984
<b>Total assets</b>	<b>69,877</b>	<b>64,228</b>
<b>Liabilities:</b>		
Current	8,707	7,136
Non-current liabilities	4,495	7,257
<b>Total</b>	<b>13,203</b>	<b>14,393</b>
<b>Net Assets:</b>		
Invested in capital assets, net of debt	38,813	37,054
Restricted for nonexpendable	4,544	4,108
Restricted for expendable	6,360	3,579
Unrestricted	6,957	5,094
<b>Total net assets</b>	<b>\$56,674</b>	<b>\$49,835</b>



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 MANAGEMENT’S DISCUSSION AND ANALYSIS**



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

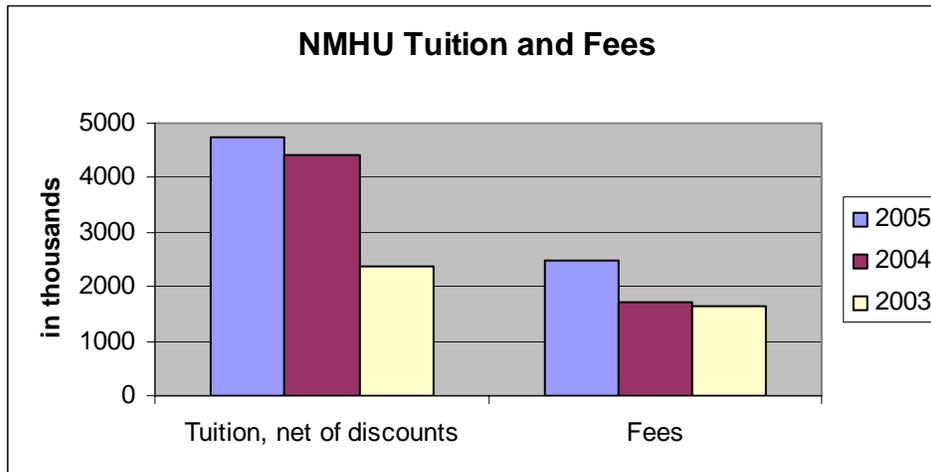
This statement shows the components that increased, in the aggregate, the University’s net assets by \$6.9 million during the year. According to the new accounting standards, operating expenses (\$55.4 million) are subtracted from operating revenues (\$30.7 million), resulting in an “operating loss” (\$24.7 million). However, the latter is not very meaningful, since it excludes state general fund appropriations (\$27.3 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 million **“Income before other revenue, expenses, gains and losses”** achieved during the year.

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Added to this income is \$3.9 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 \$6.9 million. However, this increase is reduced by an adjustment of \$0.1 million, to account for additional accumulated depreciation that was omitted in the prior year.

<b>Analysis of tuition and fees</b>				
	<u>2005</u>	<u>2004</u>	<u>Incr (Decr)</u>	
Tuition	\$5,732	\$5,436	\$296	5.4%
Fees	<u>2,483</u>	<u>1,720</u>	<u>763</u>	44.4%
Subtotal	8,215	7,156	1,059	14.8%
Tuition discounts/allowances	<u>(976)</u>	<u>(1,016)</u>	<u>40</u>	-3.9%
Net	<u>\$7,239</u>	<u>\$6,140</u>	<u>\$1,099</u>	17.9%

Tuition and fees, net of discounts and allowances, increased by 17.9 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 \$1.0 million, or 14.8 percent.

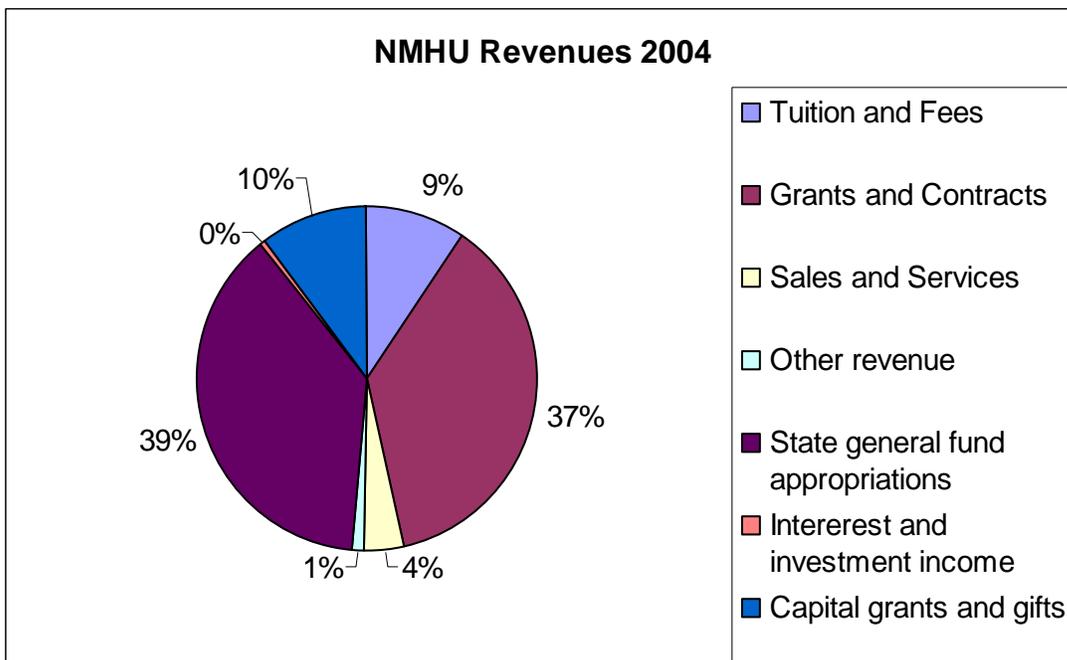
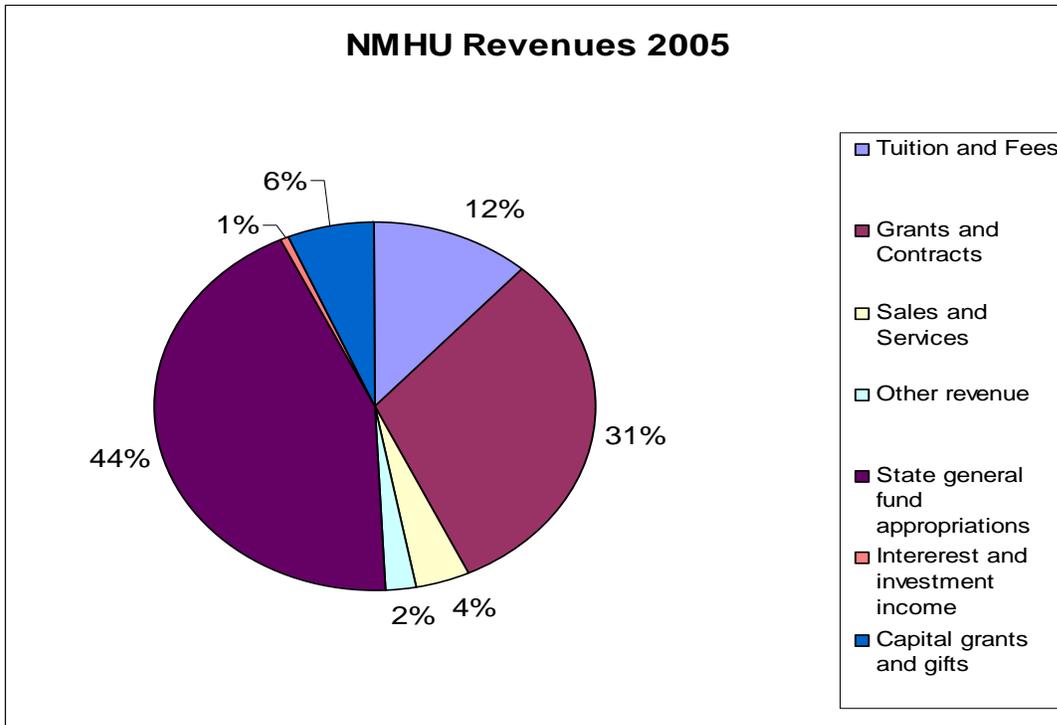


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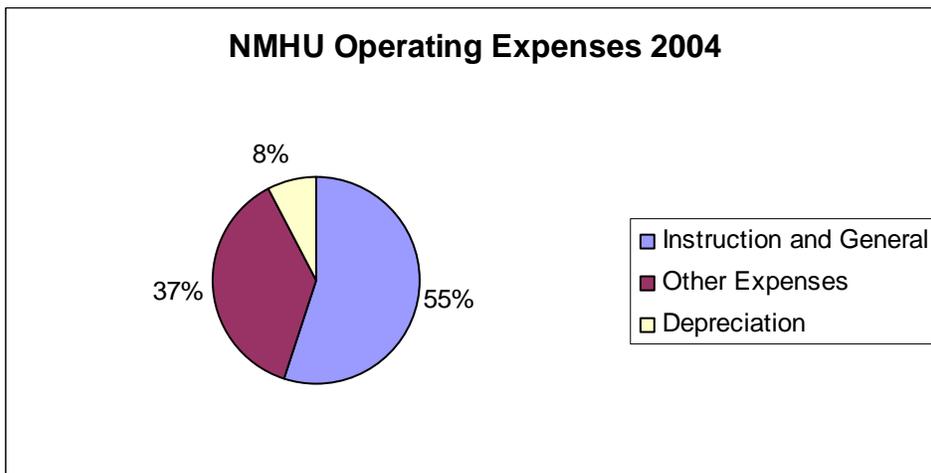
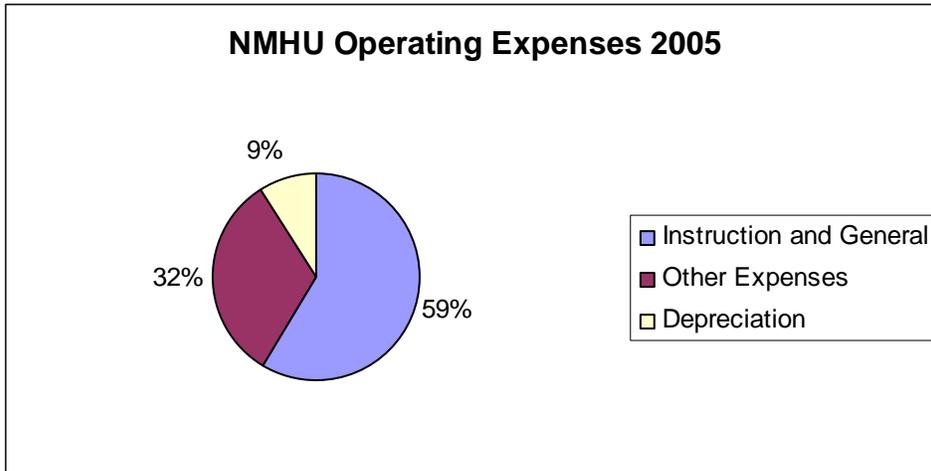
State general fund appropriations increased by \$2.8 million (11.5%), primarily due to the fact that the University's funding base (work load) for Instruction & General was increased for FY05, because the University's student credit hours had exceeded the required 3% threshold.

<b>Activities for the Year ended June 30, 2005 and 2004 (thousands)</b>		
	<b>2005</b>	<b>2004</b>
Operating revenues:		
Tuition and fees, net	\$7,240	\$6,140
Grants and contracts	19,568	23,973
Sales and services	2,504	2,474
Other revenue	1,428	859
Total operating revenues	<u>30,740</u>	<u>33,446</u>
Operating expenses:		
Instruction and general	32,440	28,889
Other operating expenses	17,951	19,674
Depreciation	5,052	3,993
Total operating expenses	<u>55,443</u>	<u>52,556</u>
Operating loss	<u>(24,703)</u>	<u>(19,110)</u>
Non-operating revenue:		
State general fund appropriations	27,347	24,511
Interest and investment income	343	225
Income before other rev., exp., gains, losses	<u>2,987</u>	<u>5,626</u>
Other revenue:		
Capital grants and gifts, net	<u>3,955</u>	<u>6,763</u>
Increase in net assets	<u>6,942</u>	<u>12,389</u>
Net assets, beginning, unadjusted	49,835	41,161
Cumulative effects - depreciation	(102)	(3,715)
Net assets, beginning, as adjusted	<u>49,733</u>	<u>37,446</u>
Net assets, ending	<u>\$56,674</u>	<u>\$49,835</u>

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



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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 \$5.8 million net increase during the year, resulting in an ending cash balance of \$14.8 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.

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Statement of Cash Flows for the Year ended June 30, 2005 and 2004 (thousands)		
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net cash used by operating activities	(17,012)	(15,660)
Net cash provided by noncapital financing activities	31,302	31,273
Net cash flow provided by investment activities	82	(235)
Net cash used by capital & related financial activity	(8,567)	(10,799)
Net Increase in cash and cash equivalents	5,805	4,579
Cash and cash equivalents, beginning of year	9,003	4,424
Cash and cash equivalents, ending of year	14,809	9,003

**Discussion of Significant Capital Projects**

During FY05, the University completed construction of and capitalized a state-of-the art science building at a cost of \$18.2 million. It opened for classes in the Fall of 2004 as the Ivan Hilton Center for Science and Technology. The building has been funded 66% by state general obligation bonds, 29% by the U.S. Department of Energy, and 5% by the U.S. Department of Housing and Urban Development. The University also continued to improve its student housing and infrastructure, funded by general obligation and severance tax bonds; however, millions of dollars will have to be expended in FY06 and beyond to significantly address the University's capital project and infrastructure needs.

In the Fall 2005, NMHU experienced significant infrastructure problems with the University electrical and steam heating systems. The University seems to be successful in addressing these issues on a short term emergency status. However, the long term repercussions of the University Infrastructure exist. NMHU has alerted representatives from both the Legislative and Executive branches of government of infrastructure problems and is developing a short term and long range plan with associated costs to be presented for consideration during the 2006 Legislative session.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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. This explanation also applies to multi-year projects included under the "Capital outlay" line item on the **Combined Revenues and Expenditures** schedule.

On the **Unrestricted Instruction & General** schedule, the major variances between the original and final budget are due to the University receiving additional general fund appropriations in the amount of \$2.1 million during the 2005 legislative session and budgeting additional unallocated cash balances of \$4.1 million.

**Current Facts**

For the fiscal year ending June 30, 2006 (**FY06**), the University received \$0.5 million (2.4%) in increased funding from the state general fund for Instruction & General. The 2004 Legislature appropriated \$5.3 million for various projects for FY05/06, including student housing improvements (\$2.5 million) and renovation of the old science building (\$3 million). The 2005 Legislature appropriated \$1.0 million for the Student Services Center, \$1.5 million for Golf Course Improvements and \$1.2 million for the retirement of the loan. The University's FY06 budget projects a healthy 5.3% ending balance for the Instruction & General fund. No deficits are projected in any of the University's funds.

**Enrollment**

Enrollment Data – 65,936 Student credit hours for AY 02-03 Base year, AY 04-05 actual were 71,124 an increase of 7.8 percent. AY05-06 is estimated at 69,495. This decrease is resulting from transferring developmental courses to the Luna Community College.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Economic Outlook**

For **FY07**, the University qualifies for a base funding adjustment (via the Higher Education Department's funding formula), because student credit hours in FY05 increased by 7.8 percent. The University is expecting a positive impact of \$1.5 million in the state general fund during FY07.

The University has regained a solid financial footing and will continue to not only strengthen its finances further, but also to secure new funding in order to serve its customers and to implement its new strategic plan. The University is continually evaluating how to better serve its students and is expanding its Spanish, engineering and other programs. In addition, it is actively engaging in strategically relevant partnerships throughout Northern New Mexico and the entire state.

In the fall of 2004, NMHU entered into a Memorandum of Understanding (MOU) with Los Alamos National Laboratory in which the primary emphasis in the student programs is to ensure that students are placed in rewarding educational assignments that complement both NMHU and LANL needs. The MOU identifies two focus areas of importance to both institutions; Computational Engineering and Materials Science Engineering. In general, students are expected to complete their coursework at NMHU.

NMHU has implemented the following new projects in the Fall of 2005 and has requested recurring funding for each of these projects:

- NM Forest and Watershed Restoration Institute
- Ben Lujan Leadership and Public Policy Institute

**Other NMHU Initiatives**

NMHU is proposing the following New Program Initiatives which correlate with the University's strategic plan;

- **Ph.D. Program in Clinical Psychology** – Addresses the need for clinical psychologists to serve New Mexico's rural areas and child populations. First year program cost is estimated at \$318.0 with subsequent years funded at a recurring cost of \$241.0 thousand.
- **2 + 2 Nursing Program** – With concentration in management in partnership with Luna Community College. The planning proposal is jointly developed by College of Arts and Sciences, Luna Community College and a faculty member from the University of New Mexico.

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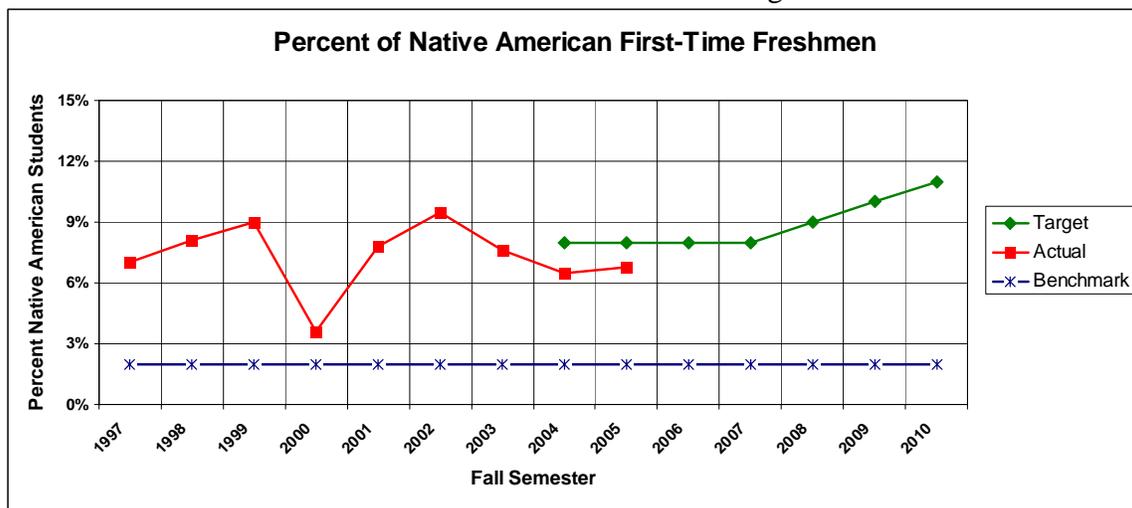
- **3 + 2 Engineering & Computational Engineering Program** - NMHU projects a 3/2 program, could be of minimal cost and become well respected in transferring well prepared students which may then evolve into a unique Bachelor of Science in Engineering (BSE) degree which would complement the offerings of the other three engineering schools in NM. The Computational Engineering Program, by design, the unique computational engineering track complements all of NMHU’s current sciences programs. Course offerings in the future can provide contemporary training to the program. The degree would be a BSE and the concentration area of “computational engineering”. Specific areas in computational engineering are growing fields in science and engineering and are consistent with the need for interdisciplinary approaches to problem solving in industry and academics.

**Performance Indicators**

As part of the University’s performance goals, Action Plan, NMHU has instituted a number of initiatives designed to improve retention and success rates. These initiatives include freshmen seminar, tutoring program, reading enhancement program, learning communities and Computerized Placement and Assessment Support Services (COMPASS) placing testing.

NMHU is working towards meeting the benchmark target established in the quarterly reports prepared to meet the requirements of the Accountability in Government Act (AGA). NMHU is taking various steps such as, freshmen seminar, tutoring program, reading enhancement program, learning communities and COMPASS place testing to address this issue. In the past, NMHU had indicated that it will close the gap within four years; however, actual data indicates otherwise.

Native American First-Time Freshmen Enrollment - Target 8 % actual 6.8%

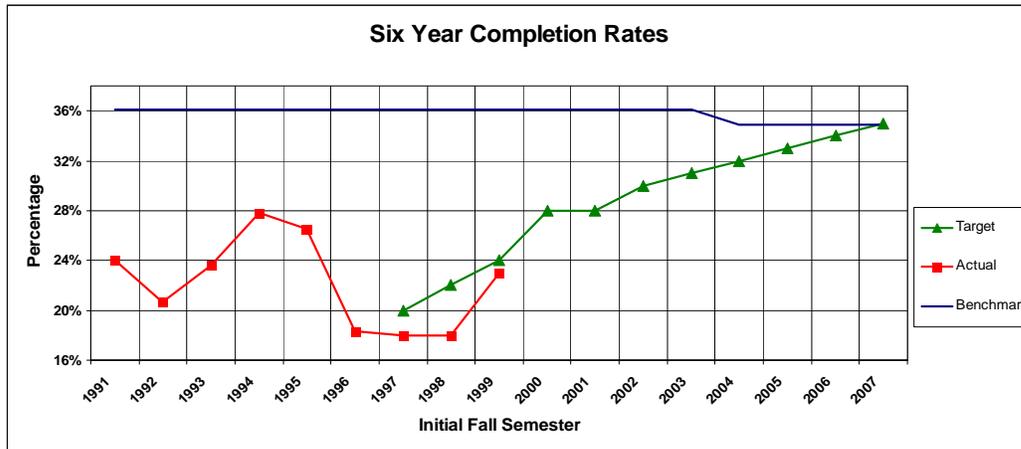


NMHU has exceeded the benchmark by a substantial amount and is committed to Native American Recruitment. The University is currently working to develop partnerships with

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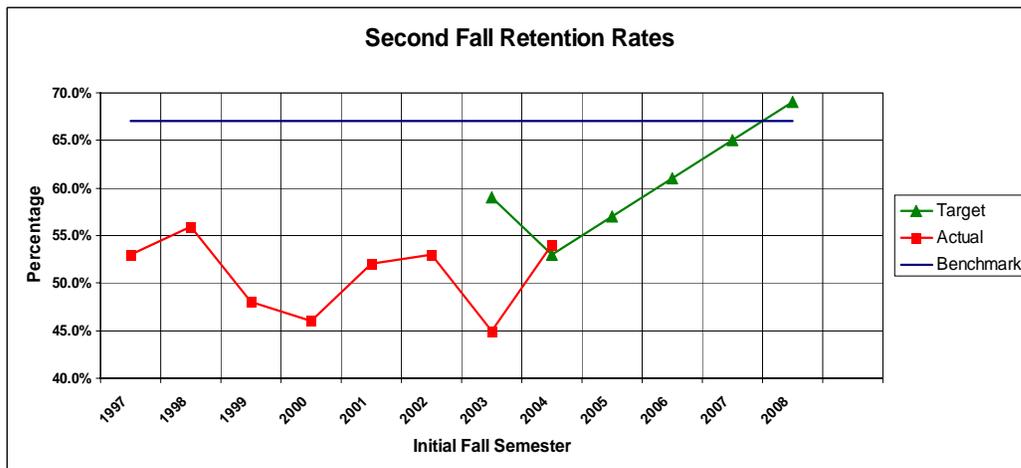
area tribal higher education officials to develop stronger partnerships. Also, the University is committed to provide incoming Native American students with an opportunity to transition into college life without loss of cultural affiliation.

Six year Completion Rates – Target 24% actual 23%. Re-established target is 28%,



NMHU is very close to its target. Moreover, NMHU is committed to re-evaluating data to re-adjust our target to close the gap on the Consortium for Student Retention Data Exchange (CSRDE) benchmark. NMHU has instituted a number of initiatives designed to improve success rates, retention rates, degree completion in a timely manner and timely completion of a post-baccalaureate degree. These initiatives include freshman seminar, tutoring program, learning communities, and COMPASS testing.

Retention Measure – Target 53% actual 54%. 2005 target re-established at 57%,



NMHU has surpassed our target rate and will continue to improve in closing the time frame to reach the benchmark within four years. NMHU has taken the following steps: Increased funding of approximately \$125,000 to \$200,000 for the new retention initiatives; has increased tutoring service for 100 and 200 level courses, a tutor will be

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

assigned to these courses and will attend class and be accessible to students; peer mentors will be assigned to 100 and 200 classes; revamp the Academic Advising process, including training for faculty and staff advisors; development of an Exit Interview program for students who leave the university; develop a meeting space dedicated to enhancing a sense of community for Native American Students.

**Rio Rancho**

New Mexico Highlands University has received approval for the sale of 26.0342 acres of land located Rio Rancho. NMHU has determined its needs will be better served at a different location other than where the current vacant land is located. The sale of the property allows NMHU to partner with Albuquerque Technical Vocational Institute to meet the educational needs of the student population of Sandoval County, in particular the City of Rio Rancho.

**Contact Information**

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

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**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF NET ASSETS  
June 30, 2005**

	Primary Government	Component Unit
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 14,808,967	90,930
Student accounts receivable, net of an allowance of \$1,984,371	1,109,849	-
Third party receivable	1,199,574	-
Grants receivable, net of an allowance of \$907,364	2,480,508	-
Other receivables	661,248	14,185
Inventories	689,194	-
Prepaid assets	605,028	3,867
<b>Total current assets</b>	<u>21,554,368</u>	<u>108,982</u>
Noncurrent Assets		
Investments	4,314,638	2,631,180
Capital assets, net of accumulated depreciation	44,008,434	2,640,808
<b>Total noncurrent assets</b>	<u>48,323,072</u>	<u>5,271,988</u>
<b>Total assets</b>	<u>\$ 69,877,440</u>	<u>5,380,970</u>
<b>LIABILITIES</b>		
Current Liabilities		
Payables and accrued liabilities	\$ 4,537,380	11,062
Accrued compensated absences	554,478	-
Deferred revenue	2,846,003	-
Bonds payable-current portion	770,000	-
Notes payable-current portion		196,107
<b>Total current liabilities</b>	<u>8,707,861</u>	<u>207,169</u>
Noncurrent Liabilities		
Accrued compensated absences	70,286	-
Bonds payable long-term portion	4,425,000	-
Assets held for others	-	237,500
Notes payable-long term portion	-	1,782,370
<b>Total noncurrent liabilities</b>	<u>4,495,286</u>	<u>2,019,870</u>
<b>Total liabilities</b>	<u>13,203,147</u>	<u>2,227,039</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of debt	38,813,434	662,331
Restricted for		
Nonexpendable		
Restricted for scholarships and grants	4,544,239	2,127,676
Expendable		
Loans	1,486,666	-
Capital projects	3,732,719	-
Debt service	1,139,423	-
Unrestricted	6,957,811	363,924
<b>Total net assets</b>	<u>56,674,293</u>	<u>3,153,931</u>
<b>Total net assets and liabilities</b>	<u>\$ 69,877,440</u>	<u>5,380,970</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, 2005**

	Primary Government	Component Unit
Operating revenues		
Tuition and fees	\$ 8,215,466	-
Tuition discounts and allowances	(975,685)	-
	<hr/> 7,239,781	
Federal grants and contracts	11,801,459	-
State and local grants and contracts	5,647,395	-
Private grants and contracts	2,119,324	-
State land, permanent fund and investment income	179,877	71,685
Sales and services of auxiliary enterprises	2,503,520	-
Contributions	-	505,656
Other	1,248,919	600,521
<b>Total operating revenues</b>	<hr/> <b>30,740,275</b>	<hr/> <b>1,177,862</b>
Expenses		
Instruction and general		
Instruction	17,211,887	-
Academic support	2,323,569	-
Student services	3,277,518	-
Institutional support	5,209,917	-
Operations and maintenance support	4,417,276	-
	<hr/> 32,440,167	-
Student social/cultural development	566,657	-
Research	2,597,176	-
Public service	6,035,085	-
Student aid grants and stipends	5,297,983	97,964
Tuition discounts and allowances	(975,685)	-
Auxiliary enterprises	2,187,166	-
Athletics	1,584,323	-
Other expenditures	658,716	823,857
Depreciation	5,052,322	57,699
<b>Total expenses</b>	<hr/> <b>55,443,909</b>	<hr/> <b>979,520</b>
Operating (loss) income	<hr/> <b>(24,703,634)</b>	<hr/> <b>198,342</b>

*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, 2005**

	Primary Government	Component Unit
Non operating revenues (expenses)		
State appropriations	\$ 27,346,679	-
Interest and investment income	343,009	-
<b>Net nonoperating revenues</b>	<u>27,689,688</u>	<u>-</u>
<b>Income before other revenues, expenses, gains and losses</b>	<u>2,986,054</u>	<u>198,342</u>
Other		
Capital grants and gifts, net	<u>3,955,327</u>	<u>-</u>
<b>Increase in net assets</b>	<u>6,941,381</u>	<u>198,342</u>
Net assets		
Net assets - beginning of year	49,835,217	2,955,589
Adjustment to capital assets	<u>(102,305)</u>	<u>-</u>
Net assets, beginning of year, as adjusted	<u>49,732,912</u>	<u>2,955,589</u>
<b>Net assets, end of year</b>	<u><u>\$ 56,674,293</u></u>	<u><u>3,153,931</u></u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2005**

	Primary Government	Component Unit
Cash Flows From Operating Activities		
Contributions	\$	412,558
Tuition and fees	7,936,859	-
Grants and contracts	19,748,820	-
Sales and services of educational activities	2,413,564	-
Other operating receipts	2,940,072	446,817
Payments to employees for salaries and benefits	(102,305)	-
Payments to suppliers	(49,948,857)	(686,717)
<b>Net cash (used) provided by operating activities</b>	<u>(17,011,847)</u>	<u>172,658</u>
Cash Flows From Noncapital Financing Activities		
State appropriations	27,346,679	-
Capital grants	3,955,327	-
<b>Net cash provided by noncapital financing activities</b>	<u>31,302,006</u>	<u>-</u>
Cash Flows From Investment Activities		
Purchases of investments	(2,274,349)	(76,261)
Sales of investments	2,091,464	-
Unrealized gain on assets	(92,773)	-
Interest received on investments	358,209	-
<b>Net cash used by investment activities</b>	<u>82,551</u>	<u>(76,261)</u>
Cash Flows From Capital and Related Financing Activities		
Cash paid for capital assets	(6,179,144)	-
Repayments of bonds payable	(735,000)	-
Proceeds from Note Payable	200,000	-
Repayments of notes and capital lease payable	(1,852,954)	(210,348)
<b>Net cash used by capital and related financing activities</b>	<u>(8,567,098)</u>	<u>(210,348)</u>
<b>Net increase in cash and cash equivalents</b>	5,805,612	(113,951)
Cash and cash equivalents, beginning of year	<u>9,003,355</u>	<u>204,881</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 14,808,967</u>	<u>90,930</u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended June 30, 2005**

	Primary Government	Component Unit
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating (loss) income	\$ (24,703,634)	198,342
Adjustments to reconcile operating (loss) income to net cash used by operating activities		
Depreciation expense	5,052,322	57,699
Unrealized gain/loss on investments	-	(71,413)
Loss on disposal of assets		-
Changes in assets and liabilities		
Receivables	1,501,089	4,708
Inventories	16,836	-
Other assets	(76,431)	(273)
Accounts payable and accrued expenses	437,164	(16,405)
Deferred revenue	797,951	-
Investment and interest income	-	-
Compensated absences	(37,144)	-
	<hr/>	<hr/>
<b>Net cash (used) provided by operating activities</b>	<b>\$ (17,011,847)</b>	<b>172,658</b>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**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, Education Administration, 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 are also offered.

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, 2005**

**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 responsibility include, but are 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, 2005**

**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, 2005**

**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.

*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.

*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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*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 2005, are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2005. 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 \$1,000 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). Employees exempt from coverage by FLSA earn one hour of compensatory time for each overtime hour.

*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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*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, 2005**

**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.

	New Mexico Highlands University	<u>Component Unit</u> NMHU
<u>Foundation</u>		
Bank Deposits	\$ 5,114,192	\$ 103,751
State Treasurer Local Government Investment Pool	11,097,676	-
	<u>\$ 16,211,868</u>	<u>\$ 103,751</u>

*Collateralization of Deposits* - 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. As of June 30, 2005, \$868,728 of the University's bank balance of \$16,211,868 was exposed to uncollateralized and uninsured amounts.

The Foundation is not required to follow State Statues and therefore no collateralization is required. As of June 30, 2005, \$2,334 of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 2. CASH AND CASH EQUIVALENTS**

**Credit Risk.** The University has money market funds that are considered cash. As of June 30, 2005, 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, 2005, the State Treasurer Investment Pool was paying the University 2.14 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 5 years and are AAA rated by Moody Investor Services.

**NOTE 3. INVESTMENTS**

At June 30, 2005, investments of the University and its components units are summarized as follows:

		<u>Component Unit</u>	
		New Mexico Highlands University	Foundation
	<u>Maturities</u>		
State Investment Council	6 – 7 yrs	\$ 1,993,446	\$ -
State Investment Council (land grant)	N/A	2,321,192	-
U.S. Obligations	3 months avg	-	500,587
Stocks and bonds	Various	-	2,099,001
Total		<u>\$ 4,314,638</u>	<u>\$ 2,599,588</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 3. INVESTMENTS**

**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.

**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, 2005, 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.

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 **\$153,114** and investment income of **\$67,189**.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 4. PROPERTY, PLANT AND EQUIPMENT**

Following are the changes in capital assets for the University for the year ended 30 June 2005:

	Balance 30 June 2004	Additions	Retirements	Balance 30 June 2005
Capital assets not being depreciated				
Land	\$1,915,932	1,207,253		<b>\$3,123,185</b>
Artwork	143,300			<b>143,300</b>
Construction-in-progress	17,375,375		17,343,636	<b>31,739</b>
<b>Total capital assets not being depreciated</b>	<b>\$19,434,607</b>	<b>1,207,253</b>	<b>17,343,636</b>	<b>\$3,298,224</b>
Other capital assets				
Land improvements	\$2,860,653	1,365,567		<b>\$4,226,220</b>
Buildings	57,149,913	18,995,150	431,965	<b>75,713,098</b>
Furniture, fixtures and equipment	13,816,388	1,643,224		<b>15,459,612</b>
Library materials	7,070,320	474,761	296,637	<b>7,248,444</b>
<b>Total other capital assets</b>	<b>80,897,274</b>	<b>22,478,702</b>	<b>728,602</b>	<b>102,647,374</b>
Less accumulated depreciation for				
Land improvements	1,779,649	246,489		<b>2,026,138</b>
Buildings	40,470,205	2,677,462	166,485	<b>42,981,182</b>
Furniture, fixtures and equipment	9,231,546	1,576,714		<b>10,808,260</b>
Library materials	5,866,564	551,657	296,637	<b>6,121,584</b>
<b>Total accumulated depreciation</b>	<b>57,347,964</b>	<b>5,052,322</b>	<b>463,122</b>	<b>61,937,164</b>
<b>Other capital assets, net</b>	<b>\$23,549,310</b>	<b>17,426,380</b>	<b>265,480</b>	<b>\$40,710,210</b>
Capital assets summary:				
Capital assets not being depreciated	\$19,434,607	1,207,253	17,343,636	<b>\$3,298,224</b>
Other capital assets	80,897,274	22,478,702	728,602	<b>102,647,374</b>
Total cost of capital assets	100,331,881	23,685,955	18,072,238	<b>105,945,598</b>
Less accumulated depreciation	57,347,964	5,052,322	463,122	<b>61,937,164</b>
<b>Capital assets, net</b>	<b>\$42,983,917</b>	<b>18,633,633</b>	<b>17,609,116</b>	<b>\$44,008,434</b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 5. LONG-TERM LIABILITIES**

Long-term liability activity for the University for the year ended June 30, 2005, is as follows:

	Balance June 30, 2004	Additions	Deletions	<b>Balance June 30, 2005</b>
Bonds payable				
Long-term bond payable	\$ 5,195,000	-	770,000	4,425,000
Current portion of bonds payable	<u>735,000</u>	<u>770,000</u>	<u>735,000</u>	<u><b>770,000</b></u>
	<u>5,930,000</u>	<u>770,000</u>	<u>1,505,000</u>	<u><b>5,195,000</b></u>
Notes payable				
Long-term portion				
BLV loan #217623	301,512		301,512	0
BLV loan #2120000	<u>1,181,537</u>		<u>1,181,537</u>	<u><b>0</b></u>
Total long-term	<u>1,483,049</u>		<u>1,483,049</u>	<u><b>0</b></u>
Current portion				
BLV loan #217623	27,998		27,998	0
BLV loan #2120000	<u>141,907</u>		<u>141,907</u>	<u><b>0</b></u>
Total current	<u>169,905</u>		<u>169,905</u>	<u><b>0</b></u>
Total	<u>1,652,954</u>		<u>1,652,954</u>	
Accrued compensated absences				
Long-term portion	\$ 578,571	46,193	554,478	70,286
Current portion	<u>83,337</u>	<u>554,478</u>	<u>83,337</u>	<u>554,478</u>
	<u>661,908</u>	<u>600,671</u>	<u>637,815</u>	<u><b>624,764</b></u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 6. 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 4.25% to 4.7%.

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,
2006	770,000	235,860	1,005,860
2007	805,000	201,980	1,006,980
2008	845,000	165,755	1,010,755
2009	885,000	127,730	1,012,730
2010-2011	<u>1,890,000</u>	<u>133,260</u>	<u>2,023,260</u>
	<u>\$ 5,195,000</u>	<u>864,585</u>	<u>6,059,585</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 7. RISK MANAGEMENT**

*Self Insurance Plan.* The University terminated the self insurance plan for employee medical coverage effective October 31, 2004. Effective November 1, 2004, the University joined the State Employee Benefits Program administered by the Risk Management Division of the General Services Department. During the self insurance period, the University had limited risk of liability with a stop-loss policy, which continues coverage for any participant with claims from an individual occurrence in excess of \$30,000. During fiscal year 2005 \$743,489 in premiums were collected and \$730,708 were disbursed for claims and administrative fees. The liability for claims incurred as of June 30, 2005 was \$7,113. There is a 13 month term clause for the run-out of claims. This term will expire December 31, 2005. The following reconciles the activity in the liability during the year:

*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.

**NOTE 8. 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, 2005, was \$10,360 which has been charged to expenditures.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 8. EMPLOYEE BENEFITS**

*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.

*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.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 8. EMPLOYEE BENEFITS**

*Funding Policy.* Plan members are required to contribute 7.6% of their gross salary. The University is required to contribute 8.65% 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, 2005, June 30, 2004, and June 30, 2003 were \$2,768,480, \$2,620,981, and \$2,615,314, respectively, equal to the amount of the required contribution for each year.

The Retiree Health Care Act (Sections 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.

Eligible employers are institutions of higher education, school districts, other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities, 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.

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 in an amount equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium.

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, 401 Roma NW, Suite 200, Albuquerque, New Mexico 87102.

The University remitted \$252,017 and \$243,342 in employer contributions for years ended June 30, 2005 and June 30, 2004.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005**

**NOTE 8. EMPLOYEE BENEFITS**

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect an alternative retirement plan. With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 5.65% to the carrier selected by the employee. The employee contributes 7.6% of his/her gross salary to the carrier they select. Contributions by the University totaled \$79,242 to the ERA for the alternative plan and \$152,033 to the various carriers for the year ended June 30, 2005. Employees contributed \$204,504 to the various carriers under the alternative plan during the year ended June 30, 2005.

**NOTE 9. LEASES**

At June 30, 2005, the University had various operating lease arrangements summarized as follows:

*Operating Leases.* Rent expense for operating leases amounted to \$923,014 for the year ended June 30, 2005.

*Minimum Lease Payments.* The following is a schedule of future minimum lease payments for these leases at June 30, 2005:

Year Ending June 30	Operating Leases
2006	\$ 893,977
2007	626,675
2008	572,058
2009	581,838
2010-2014	2,909,190
2015-2019	<u>2,909,190</u>
	<u>\$ 8,492,928</u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005**

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

At June 30, 2005, 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>\$ 1,587,177</u>
Plant Funds	<u>\$ 1,732,635</u>

*Contingencies.* Reimbursements for amounts expended by the University under the terms of federal and state grants and contracts are subject to audit and possible adjustments by the granting agency. Grants and contracts for the years ended June 30, 2004 and 2003, are pending results of audits performed by federal and state agencies. It is the opinion of University management that adjustments, if any, will not have a material effect on the University's financial position or results of operations.

*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:

3. Liability and civil rights protection for claims made by others against the University.
4. 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 11. RECONCILIATION OF BUDGET BASIS TO GAAP**

Budget basis expenditures	\$ 59,760,309
Capital expenditures	(5,805,083)
Depreciation	5,052,322
Scholarship allowance	(975,685)
Bond payments	(735,000)
Notes and capital lease payments	<u>(1,852,954)</u>
Expenses per GAAP	<u>\$ 55,443,909</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 12. 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	\$ 90,930	-		90,930

**NOTE 13. FOUNDATION PROPERTY, PLANT AND EQUIPMENT**

Following are the changes in capital assets for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Transfers	Retirements	Balance June 30, 2005
Capital assets not being depreciated					
Land	\$ 794,462	-	-	-	<u>794,462</u>
Other capital assets					
Buildings	2,250,237	-	-	-	<u>2,250,237</u>
Less accumulated depreciation for					
Buildings	346,193	57,699	-	-	<u>403,892</u>
Other capital assets, net	\$ 1,961,743	57,699	-	-	<u>1,846,345</u>
Capital assets summary					
Capital assets not being depreciated	\$ 794,462	-	-	-	<u>794,462</u>
Other capital assets, at cost	2,250,237	-	-	-	<u>2,250,237</u>
<b>Total cost of capital assets</b>	3,044,699	-	-	-	<u>3,044,699</u>
Accumulated depreciation	(346,193)	(57,699)	-	-	<u>(403,892)</u>
<b>Capital assets, net</b>	\$ 2,640,807	57,699	-	-	<u>2,640,807</u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005**

**NOTE 14. FOUNDATION LONG TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2005 is as follows:

	Balance June 30, 2004	Additions	Deletions	<b>Balance June 30, 2005</b>
Notes payable				
Long-term portion	\$ 1,954,562	-	172,192	<b>1,782,370</b>
Current portion	<u>234,263</u>	172,192	210,348	<u>196,107</u>
<b>Total</b>	<b><u>\$ 2,188,825</u></b>	<b>172,192</b>	<b>382,540</b>	<b><u>1,978,477</u></b>

**NOTE 15. 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.

Five year note with a bank, payable on  
 July 30, 2009 with 59 monthly payments  
 of \$27,000 and one irregular last payment  
 of \$1,188,321 at .25% above prime.  
 The note is secured with building and land. \$ 1,978,477

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

2006	196,107
2007	208,460
2008	222,910
2009	<u>1,351,000</u>
	<u>\$ 1,978,477</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
COMBINED REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
State general fund appropriations	\$ 25,805,000	27,942,500	27,146,679	(795,821)
Federal revenue sources	13,911,377	9,247,119	10,183,579	936,460
Tuition and fees	6,394,282	7,165,496	8,139,583	974,087
Land and permanent fund	137,900	137,900	179,877	41,977
Private grants/contracts	2,327,698	2,032,868	1,525,972	(506,896)
Sales & Service	2,592,143	2,626,015	2,742,367	116,352
Government grants - state	7,944,195	11,342,194	10,684,698	(657,496)
Endowments and private gifts	-	-	-	-
Other	1,991,500	1,846,362	2,199,212	352,850
<b>Total revenues</b>	<b>61,104,095</b>	<b>62,340,454</b>	<b>62,801,967</b>	<b>461,513</b>
Cash balance budgeted	3,077,723	7,188,601	7,188,601	-
<b>Total revenues and cash balance budgeted</b>	<b>64,181,818</b>	<b>69,529,055</b>	<b>69,990,568</b>	<b>461,513</b>
<b>Expenditures</b>				
Instruction and general	36,673,084	35,482,215	32,445,009	(3,037,206)
Student social and cultural	519,855	636,248	566,657	(69,591)
Research	4,815,808	2,654,428	2,597,176	(57,252)
Public service	8,562,631	4,911,397	6,035,085	1,123,688
Internal service departments	60,900	92,304	(4,885)	(97,189)
Student aid	4,815,748	5,254,878	5,143,808	(111,070)
Auxiliary enterprises	1,950,997	2,048,939	2,080,023	31,084
Intercollegiate athletics	1,480,567	1,590,345	1,584,323	(6,022)
Capital outlay	192,690	7,208,852	4,823,001	(2,385,851)
Renewal and replacements	1,209,542	1,747,181	1,514,477	(232,704)
Retirement of indebtedness	1,297,173	2,971,383	2,975,635	4,252
<b>Total expenditures</b>	<b>61,578,995</b>	<b>64,598,170</b>	<b>59,760,309</b>	<b>(4,837,861)</b>
Change in net assets-budgetary basis	\$ 2,563,088	3,091,227	6,950,387	3,859,160

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
UNRESTRICTED CURRENT FUNDS  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ 5,823,702	6,015,760	5,732,217	(283,543)
Miscellaneous fees	570,580	645,913	1,161,475	515,562
Government appropriations-federal	-	-	-	-
Government appropriations-state	25,805,000	25,805,000	25,740,106	(64,894)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	21,708	21,708
Government grants - state	-	-	6,041	6,041
Contracts - local	-	-	-	-
Private grants/contracts	-	20,000	130,058	110,058
Endowments	-	-	-	-
Land and permanent fund	137,900	137,900	179,877	41,977
Private gifts	-	-	-	-
Sales & service	2,592,143	2,626,015	2,697,305	71,290
Other sources	1,991,500	1,846,362	1,986,950	140,588
<b>Total revenues</b>	<b>36,920,825</b>	<b>37,096,950</b>	<b>37,655,737</b>	<b>558,787</b>
Cash balance budgeted	1,633,097	5,179,848	5,179,848	-
<b>Total revenues and cash balance budgeted</b>	<b>38,553,922</b>	<b>42,276,798</b>	<b>42,835,585</b>	<b>558,787</b>
<b>Expenditures</b>				
Instruction and general	28,873,084	29,781,204	26,447,886	(3,333,318)
Student social and cultural	507,455	582,180	514,306	(67,874)
Research	601,208	1,097,890	831,902	(265,988)
Public service	728,331	907,330	704,793	(202,537)
Internal service departments	57,000	63,927	(32,103)	(96,030)
Student aid	509,378	518,878	373,872	(145,006)
Auxiliary enterprises	1,941,297	2,002,052	2,034,517	32,465
Intercollegiate athletics	1,478,567	1,582,277	1,575,737	(6,540)
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
<b>Total expenditures</b>	<b>34,696,320</b>	<b>36,535,738</b>	<b>32,450,908</b>	<b>(4,084,830)</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ 3,857,602</b>	<b>5,741,060</b>	<b>10,384,677</b>	<b>4,643,617</b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
UNRESTRICTED CURRENT FUNDS  
SUMMARY OF INSTRUCTION AND GENERAL  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ 5,317,488	5,708,970	5,732,217	23,247
Miscellaneous fees	506,214	306,790	512,929	206,139
Government appropriations-federal	-	-	(19,746)	(19,746)
Government appropriations-state	23,767,100	23,767,100	23,702,206	(64,894)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	4,187	4,187
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	137,900	137,900	179,877	41,977
Private gifts	-	-	107,779	-
Sales & service	67,000	67,000	57,798	(9,202)
Other sources	1,700,000	1,594,120	1,737,045	142,925
<b>Total revenues</b>	<b>31,495,702</b>	<b>31,581,880</b>	<b>32,014,293</b>	<b>324,634</b>
Cash balance budgeted	1,387,856	4,656,794	4,656,794	-
<b>Total revenues and cash balance budgeted</b>	<b>32,883,558</b>	<b>36,238,674</b>	<b>36,671,087</b>	<b>324,634</b>
<b>Expenditures</b>				
Instruction	14,359,232	14,059,232	12,475,363	(1,583,868)
Academic support	2,511,515	2,561,515	2,277,853	(283,662)
Student services	2,453,505	2,553,505	2,138,215	(415,290)
Institutional support	5,321,577	6,079,697	5,160,936	(918,761)
Oper. & maint. of plant	4,227,255	4,527,255	4,395,517	(131,738)
<b>Total expenditures</b>	<b>28,873,084</b>	<b>29,781,204</b>	<b>26,447,886</b>	<b>(3,333,318)</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ 4,010,474</b>	<b>6,457,470</b>	<b>10,223,201</b>	<b>3,657,952</b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
RESTRICTED CURRENT FUNDS  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	742,449	742,449
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	13,911,377	9,112,987	10,056,912	943,925
Government grants - state	7,944,195	5,009,161	5,543,686	534,525
Contracts - local	-	-	-	-
Private grants/contracts	2,327,698	2,012,868	1,395,914	(616,954)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	45,062	45,062
Other sources	-	-	212,262	212,262
<b>Total revenues</b>	<b>24,183,270</b>	<b>16,135,016</b>	<b>17,996,285</b>	<b>1,861,269</b>
Cash balance budgeted	-	-	-	-
<b>Total revenues and cash balance budgeted</b>	<b>24,183,270</b>	<b>16,135,016</b>	<b>17,996,285</b>	<b>1,861,269</b>
<b>Expenditures</b>				
Instruction and general	7,800,000	5,701,011	5,997,123	296,112
Student social and cultural	12,400	54,068	52,351	(1,717)
Research	4,214,600	1,556,538	1,765,274	208,736
Public service	7,834,300	4,004,067	5,330,292	1,326,225
Internal service departments	3,900	28,377	27,218	(1,159)
Student aid	4,306,370	4,736,000	4,769,936	33,936
Auxiliary enterprises	9,700	46,887	45,506	(1,382)
Intercollegiate athletics	2,000	8,068	8,586	518
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
<b>Total expenditures</b>	<b>24,183,270</b>	<b>16,135,016</b>	<b>17,996,285</b>	<b>1,861,269</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
RESTRICTED CURRENT FUNDS  
SUMMARY OF INSTRUCTION AND GENERAL  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	4,775,000	3,166,760	3,689,256	522,496
Government grants - state	2,870,000	2,317,407	2,148,609	(168,798)
Contracts - local	-	-	-	-
Private grants/contracts	155,000	216,844	25,287	(191,557)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	44,288	44,288
Other sources	-	-	89,683	89,683
<b>Total revenues</b>	<b>7,800,000</b>	<b>5,701,011</b>	<b>5,997,123</b>	<b>296,112</b>
Cash balance budgeted	-	-	-	-
<b>Total revenues and cash balance budgeted</b>	<b>7,800,000</b>	<b>5,701,011</b>	<b>5,997,123</b>	<b>296,112</b>
<b>Expenditures</b>				
Instruction	6,228,800	4,503,223	4,741,365	238,142
Academic support	14,000	44,005	45,716	1,711
Student services	1,490,000	1,081,280	1,139,302	58,022
Institutional support	54,600	50,656	48,980	(1,676)
Oper. & maint. of plant	12,600	21,847	21,759	(88)
<b>Total expenditures</b>	<b>7,800,000</b>	<b>5,701,011</b>	<b>5,997,123</b>	<b>296,112</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>0</b>

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS  
Year Ended June 30, 2005

Schedule 1  
Page 1 of 2

	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			\$ 2,993,065	2,121,127	11,097,676	16,211,868
FDIC insurance						
Demand deposits			(100,000)	(100,000)	-	(200,000)
Total uninsured public funds			\$ 2,893,065	2,021,127	11,097,676	16,011,868
Fifty percent collateral requirement per section 6-10-17 NMSA			1,446,533	1,010,564	5,548,838	8,005,934
Pledged collateral						
	Federal Home Loan Bank Dallas Tx	Treasury Note CUSIP #3133X2B46	295,407	-		-
		Treasury Note CUSIP #3133MYCH8	542,784	-		
		Treasury Note CUSIP #31339XCAO	195,126			
		Treasury Note CUSIP #912828AH3	991,020			
	Federal Reserve Bank	Treasury Note CUSIP #31371KWJ6	-	609,740		
		Treasury Note CUSIP #31371LHY8	-	343,920		
		Treasury Note CUSIP #31385HXE7	-	359,626		
		Treasury Note CUSIP #31385JRT7	-	790,172		
		Treasury Note CUSIP #31385XD95	-	157,393		
		Treasury Note CUSIP #31391RP55		299,401		
		Treasury Note CUSIP #31401DCF6	-	528,034		
		Treasury Note CUSIP #36202DPR6	-	547,956		
		Treasury Note CUSIP #36202DT76		293,795		
	Wells Fargo Bank NW	Treasury Note CUSIP #31401ME98		387,189		
		Treasury Note CUSIP #31402DDP2		1,094,058		
	UBS Warburg	STO Pledged Collateral at 102% Overnight Investment			11,097,676	
			2,024,337	5,411,284	11,097,676	
Deficiency / (Excess) of pledged collateral over the required amount			\$ (577,805)	(4,400,720)	(5,548,838)	

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)  
Year Ended June 30, 2005**

Name of Bank	Account Type	Balance Per Bank Statement	Reconciled Balance Per Books
<b>Bank of Las Vegas</b>			
Account payable account	Checking	\$ 2,124,209	722,340
Payroll account	Checking	642,020	612,580
University wire-transfer account	Checking	20,675	20,675
Cash receipts account	Checking	91,497	100,081
Cashier's credit card account	Checking	62,545	70,379
Direct lending account	Checking	28,079	28,079
Flexible spending	Checking	24,041	24,041
<b>Total</b>		<u>2,993,065</u>	<u>1,578,176</u>
<b>Wells Fargo Bank - Albuquerque</b>			
Rio Rancho business	Checking	17,971	18,184
Rio credit card	Checking	21,864	21,962
Savings account	Checking	2,065,403	2,065,403
NMHU business	Checking	15,890	15,890
<b>Total</b>		<u>2,121,127</u>	<u>2,121,439</u>
<b>State Treasurer's Office</b>			
Savings account		<u>11,097,676</u>	<u>11,097,676</u>
<b>First National of Las Vegas</b>			
Foundation		<u>0</u>	<u>0</u>
<b>VISA</b>			
Foundation		<u>0</u>	<u>0</u>
Petty cash		<u>-</u>	<u>11,676</u>
		16,211,869	14,808,967

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended 30 June 2005**

Federal Grantor/Program Title	Federal CFDA #	Expenditures
<b>Research and Development Cluster</b>		
NASA-Hydrazine Air Filt. 1/02-1/05	43.001	14,961
NASA/-Astrobiology Inst. 8/02-08/05	43.001	39,972
NASA/AMES Stu. Research 12/02-12/05	43.001	62,844
NIH Biomedical Research 6/03-12/03	93.865	93,969
NIH Score Admin. 9/03-8/04	93.375	124,237
NIH Score -Horne 9/03-8/04	93.375	26,864
NIH Score -Fox 9/03-8/04	93.375	2,600
NIH Score -Hill 9/03-8/04	93.375	5,088
NIH Score -Sammeth 9/03-8/04	93.375	24,325
NIH Score -Wiedenfeld 9/03-8/04	93.375	23,226
NIH Score -Shaw 9/03-8/04	93.375	21,932
NIH Score -Meyer 9/03-8/04	93.375	33,934
NIH/RIMI Mod I 10/04-9/05	93.307	115,202
NIH/RIMI Mod II 10/04-9/05	93.307	49,935
NIH/RIMI Mod III 10/04-9/05	93.307	70,726
NIH/RIMI Mod IV 10/04-9/05	93.307	64,477
NIH/RIMI Mod V 10/04-9/05	93.307	48,315
NIH/RIMI Mod VI 10/04-9/05	93.307	76,334
NSF - MRI Acquisition 9/04-8/07	47.049	31,123
<b>Passed through New Mexico State University</b>		
NMSU-BRIN Task I 09/01/02 - 8/31/03	93.389	12,261
NMSU-BRIN Task II 09/02 - 8/31/03	93.389	7,881
NMSU-BRIN Task III 09/03-6/04	93.389	1,549
NMSU-BRIN Task IV 09/03-06/04	93.389	46,303
NMSU INBRE Task I 07/04-06/05	93.389	22,836
NMSU INBRE Task II 07/04-06/05	93.389	73,643
NMSU INBRE Task III 07/04-06/05	93.389	101,320
<b>Passed through Arizona State University</b>		
WEASO Summer 2004 5/04-5/05	47.076	518
WEASO Fall 2004 8/04-8/05	47.076	1,066
WEASO Fall 2003 9/03/-9/04	47.076	1,127
WEASO Spring 2004-1/04-1/05	47.076	1,134
<b>Passed through University of New Mexico</b>		
NM Epscor RII 4/05-3/06	47.076	2,430
<b>Total Research and Development Cluster</b>		<u>1,202,132</u>

**STATE OF NEW MEXICO**  
**NEW MEXICO HIGHLANDS UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**Year Ended 30 June 2005**

Federal Grantor/Program Title	Federal CFDA #	Expenditures
<b>Student Financial Aid Cluster</b>		
Fed W/S - Instruction	84.033	\$ 127,951
Fed W/S - Academic Support	84.033	38,348
Fed W/S Student Services	84.033	71,113
Fed W/S - Institutional Support	84.033	14,346
Fed W/S - Operation & Maint.	84.033	14,696
Fed W/S - Social & Cultural	84.033	31,264
Fed W/S - Organized Research	84.033	4,723
Fed W/S - Public Service	84.033	11,430
Fed W/S - Internal Service	84.033	20,808
Fed W/S - Auxiliaries	84.033	21,689
Fed W/S - Athletics	84.033	4,464
Fed W/S America Reads/America Count	84.033	11,799
Fed Off Campus W/S 2001-2002	84.033	15,864
Federal PELL 1999-2000	84.063	3,168,005
Federal SEOG 1999 - 2000	84.007	186,633
<b>Total Student Financial Aid Cluster</b>		<u>3,743,133</u>
<b>TRIO Programs Cluster</b>		
Support Services 9/03-8/04	84.042A	590,996
Upward Bound 6/03 - 5/04	84.047A	559,005
<b>Total TRIO Programs Cluster</b>		<u>1,150,001</u>
<b>US Department of Labor</b>		
GOAL Program 10/99-4/02	17.253	<u>80,332</u>
<b>US Bureau of Land Management</b>		
HU Forest Management Prgm 3/03-9/04	10.652	<u>79,794</u>
<b>Total US Bureau of Land Management Cluster</b>		<u>79,794</u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 Year Ended 30 June 2005**

Federal Grantor/Program Title	Federal CFDA #	Expenditures
US Department of Energy Science Building - DOE		<u>104,959</u>
US Department of Education		
Minority Science Engr 10/04-9/05	84.120A	24,237
US Dept of Ed/SWCC-Admin 10/04-6/05	84.283A	193,893
US Dept of Ed/SWCC-Admin 10/03-9/04	84.283A	688,014
US Dept of Ed/SWCC-Part 10/03-9/04	84.283A	355,326
San Miguel GEAR-UP	84.334A	1,807,538
CESDP/Career Ladder Yr4 9/04-8/05	84.195E	78,113
NMHU Dist. Ed Project 10/03-09/04	84.031S	263,681
Dept. of Ed. - Rehab. Counseling 8/04-7/05	84.129B	134,753
CAMP-College Assist. Migrant Prog	84.149A	365,811
Training for Teachers 8/02-12/03	84.195B	1,106
Bilingual Ed. Career Ladder FY04	84195.E	180,804
Passed through Western Interstate Commission for Higher Education		
AP/WICHE 06/04-9/04	84.330A	2,459
Passed through New Mexico Public Education Department		
CESDP/SAT Model 07/04-06/05	84.027A	17,212
CESDP/SSA Training 1/05-6/05	84.027A	<u>11,404</u>
<b>Total US Department of Education</b>		<u><u>4,124,352</u></u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 Year Ended 30 June 2005**

US Department of Health and Human Services- Passed through NM Department of Children Youth and Families		
CYFD SW 07/04-06/05	93.658	\$ 1,842,306
Passed through NM Human Services Department Work Program 7/04-6/05	93.558	1,132,504
Passed through Eastern New Mexico University Work Readiness ABE PRGM 04/04-09/04	93.558	7,206
Passed through University of New Mexico PhD/Bridges Program 01-02	93.960	29,595
Passed through National Youth Sports Program Fund NYSP Summer 2005 6/05-7/05	93-570	46,128
Passed through National Youth Sports Program Fund NYSP Summer 2004 6/04-5/05	93-570	<u>22,574</u>
<b>Total US Department of Human Services</b>		<u><u>3,080,313</u></u>
 US Department of the Interior		
U.S. Fish & Wildlife Service, Region 2	15.FFB	<u>3,305</u>
<b>Total US Department of the Interior</b>		<u><u>3,305</u></u>
 Health Resources & Services Administration, Bureau of Health Professionals Passed through University of New Mexico UNM Geriatric 02-03	93.969	<u>11,011</u>
 <b>Total federal awards expended</b>		<u><u>\$ 13,579,332</u></u>

**STATE OF NEW MEXICO**  
**NEW MEXICO HIGHLANDS UNIVERSITY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
June 30, 2005

**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, 2005.

**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 2005 or accrued revenue at June 30, 2005. 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, 2005, were \$1,786,185. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2005, were \$343,040. The schedule of Federal Expenditures of Federal Awards only includes an amount, which represents administrative costs and additional advances, including the University's matching requirement expended for the year ended June 30, 2005.

During the fiscal year ended June 30, 2005, the University processed \$8,691,891 of new loans under the Stafford Loan Program and Parents' Loans for Undergraduate Students.

**KARDAS, ABEYTA & WEINER, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of New Mexico Highlands University (the "University") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1, 03-5, 03-16 and 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions 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 tested 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 amount. 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 matter that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 03-17.

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.

October 21, 2005

**KARDAS, ABEYTA & WEINER, P.C.**  
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**Report on Compliance With Requirements Applicable to Each Major Program And Internal Control Over Compliance in Accordance With OMB Circular A-133**

**Compliance**

We have audited the compliance of 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, 2005. 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, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 which is described in the accompanying schedule of findings and questioned costs as item 05-2.

### **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 from the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

October 21, 2005

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
 Year Ended June 30, 2005**

Finding	Status
99-01 – Endowment Investment Policy	Resolved
01-09 – Computer Policies and Procedures	Resolved
03-04 – Under Collateralized Accounts	Resolved
03-05 - Special Audit	Resolved
03-06 – Overload Policy and Signed Contracts	Resolved
03-07 – Financial Aid Cluster	Resolved
03-15 – Travel and Per Diem	Resolved
03-16 – Human Resources/ Payroll	Modified and Repeated
03-17 – Budget Overspending	Modified and Repeated
04-01 - LFC Audit	Resolved
04-02 – Donations	Resolved
04-03 – Foundation – Segregation of Duties	Resolved
04-04 – Grants Receivable	Resolved
04-05 – Supplemental Contracts	Resolved
04-06 – Grants and Contracts – Sub recipients	Resolved
04-07 – Foundation – Pledge Receivables	Resolved

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**For The Year Ended June 30, 2005**

**Section 1 - Summary of Auditors' Results**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Reportable condition(s) identified that are required to be reported in accordance with Circular A-133, section .510(a)?	None Reported

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**For The Year Ended June 30, 2005**

**Section 1 - Summary of Auditors' Results (continued)**

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Cluster	Student Financial Aid Cluster
84.334A	Gaining Early Awareness and Readiness
84.283A	Comprehensive Centers
Cluster	Research and Development Cluster

Dollar threshold used to distinguish between  
type A and type B programs: \$388,800

Auditee qualified as a low-risk auditee? Yes

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**03-16 - Human Resources/ Payroll**

**CONDITION**

As part of our test work of internal control over payroll we selected forty employees and noted the following:

Sixteen instances of employee I-9's were either not on file or improperly prepared. Of the sixteen instances fifteen were related to student work-study employees.

One employee time sheet and pay authorization could not be located

**CRITERIA**

The University needs to ensure that all employees have a properly completed I-9 on file. All time sheets and pay authorizations need to be kept on file.

**CAUSE**

Individuals in charge of collecting I-9's need additional training. Work study supervisors are not monitoring students time sheet pay authorizations.

**EFFECT**

The University is not in compliance with employment procedures.

**RECOMMENDATION**

Student Employment Office should ensure that I-9's are properly completed. The Payroll Department and the Student Employment Office should make a better effort to ensure that work-study employee timesheets and pay authorizations are properly filed.

**RESPONSE**

Human Resources will provide I-9 training to staff in the Student Employment Office. A thorough review of all I-9 forms for those employees paid since January 1, 2005 will be completed by November 30, 2005. Human Resources will select a sample of students paid each quarter to ensure the Student Employment Office is maintaining I-9 forms as well as pay authorizations.

**STATE OF NEW MEXICO**  
**NEW MEXICO HIGHLANDS UNIVERSITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2005

**03-17 Budget Overspending**

CONDITION

We noted that the University overspent its approved budget in unrestricted current funds in the Auxiliary Enterprise by \$32,465.

CRITERIA

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. Currently, all budget overdrafts require Vice-President or Controller approval, certifying that funds are necessary for University operations. In addition, other measures are being implemented to strengthen budgetary controls.

**STATE OF NEW MEXICO**  
**NEW MEXICO HIGHLANDS UNIVERSITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2005

05-01 - Accrued Liabilities

**CONDITION**

During our test work of internal controls over accrued liabilities we noted the following:

Accrued liability balances on the general ledger are not reconciled to actual liabilities. Numerous accounts are incorrectly stated. In one instance a premium was over paid by \$8,962.

**CRITERIA**

All general ledger balances should be analyzed periodically and reconciled to payment/ liability documentation.

**CAUSE**

The University should ensure that liability reconciliations are performed on a pay period or monthly basis.

**EFFECT**

Liabilities are not reflected correctly on the general ledger and over or under payments can occur.

**RECOMMENDATION**

Personnel should be assigned to reconcile the accrued liabilities during the year.

**RESPONSE**

The University's Director of Human Resources will review all payments to vendors to ensure that liability accounts are reconciled prior to releasing funds. The overpayment of \$8,962 was collected and deposited on November 3, 2005.

**STATE OF NEW MEXICO**  
**NEW MEXICO HIGHLANDS UNIVERSITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2005

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

05-02 - Level of effort

**CONTRIBUTION**

During our review of matching cost requirements cited in grant documentation we noted that documentation supporting level of effort was missing or incomplete.

**CRITERIA**

Many grants require participation by the grantee organization in the form of occupancy and oversight over and above what is provided for by direct expenditures approved in the grant. Most of the participation is not a direct expenditure but rather in the form of providing services.

**CAUSE**

Personnel assigned to monitor grants were not obtaining all necessary documentation to support matching cost requirements.

**EFFECT**

Failure to properly document matching cost requirements could result in the grantor agency requesting that a portion of the grant be returned.

**RECOMMENDATION**

Personnel responsible for the administration of the grant need to ensure that all documentation regarding matching cost is complete and available. Perhaps implementation of the BANNER Research sub module will assist in resolving this problem.

**RESPONSE**

The university is monitoring all grants that have cost share / in-kind by:

- Maintaining a master spreadsheet of all grants that contain budget, project period, project investigator, and mandatory cost share /in kind dollars.
- Verifying that cost share/in-kind supporting documentation is being tracked and properly documented by grant fiscal personnel.
- Reporting match cost on invoices and keeping a copy of the general ledger in the grants file.

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

The Grants and Contracts office, as the official depository of grant records, will retain project files as long as required by the retention policy.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
EXIT CONFERENCE  
June 30, 2005**

Exit conference was held on November 14, 2005 with the following in attendance:

University:

Javier M. Gonzales, Chairman, Board of Regents  
Manny M. Aragon, President  
Manu Patel, Interim Vice President for Finance & Administrative Services  
Ms. Grace Montoya, Controller  
Ms. Donna Castro, Interim Director, Human Resources  
Lawrence A. Trujillo, Fiscal Manager  
Darlene R. Tapia, Executive Administrative Assistant

Foundation:

Dr. Phillip Uzdawinis, Executive Director  
Ms. Darlene Chavez, Finance Officer

Auditors

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