

STATE OF NEW
MEXICO
NEW MEXICO
HIGHLANDS
UNIVERSITY

FINANCIAL STATEMENTS
JUNE 30, 2004

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

OFFICIAL ROSTER.....	1
INDEPENDENT AUDITORS' REPORT.....	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets.....	13
Statements of Revenues, Expenses, and Changes in Net Assets	14
Statement of Cash Flows	16
Notes to Financial Statements	18
SUPPLEMENTAL INFORMATION	
Combined Revenues and Expenditures Budget Comparisons	38
Unrestricted Current Funds Revenues and Expenditures Budget Comparisons.....	39
Unrestricted Current Funds, Summary of Instruction and General Revenues and Expenditures Budget Comparisons	40

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

Restricted Current Funds
Revenues and Expenditures Budget
Comparisons41

Restricted Current Funds, Summary of Instruction
and General Revenues and Expenditures Budget
Comparisons42

SCHEDULES

Schedule of Individual Deposit Accounts43

Schedule of Expenditures of Federal Awards45

Notes to the Schedule of Federal Expenditures.....49

SINGLE AUDIT SECTION

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*.....50

Report on Compliance With
Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance With
OMB Circular A-13352

Summary of Prior Year Audit Findings.....54

Schedule of Findings and Questioned Costs55

Exit Conference79

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

Official Roster

June 30, 2004

Board of Regents

Name	Title
Toney Anaya	Chair
Mari-Luci Jaramillo	Vice Chair
Michael Saavedra	Secretary/Treasurer
L. Michael Messina	Member
Walter Adams	Member

Administrative Officials

Clarence Sanchez	Acting President / VP for Academic Affairs and Student Services
Jack Sherman	VP for Administrative Services
Tino Pestalozzi	Controller

Independent Auditors' Report

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Toney Anaya, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We have audited the accompanying basic financial statements of the New Mexico Highlands University (University) and the discretely presented component unit of New Mexico Highlands Foundation, Inc. (Foundation) as of and for the year ended June 30, 2004, as listed in the table of contents. We have also audited the unrestricted and restricted current funds budget comparisons presented as supplemental information as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements and budgetary comparisons are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the University and its discretely presented component unit are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the financial reporting entity of the business type activities information of the State of New Mexico that is attributable to the transactions of the University and its discretely presented component unit. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2004, and the changes in financial position and its cash flows, where applicable, for the year then ended in accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2004, and the results of

Mr. Domingo Martinez, CGFM,
New Mexico State Auditor
and
Toney Anaya, Chair
The Board of Regents
New Mexico Highlands University

operations, cash flows, and the budgetary comparisons for the unrestricted and restricted funds' activities 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 September 24, 2004, on our consideration of the University's and the Foundation's internal control over financial reporting and our test of their compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on 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.

Management's Discussion and Analysis is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule (Schedule 1) is presented for additional analysis and is not a required part of the basic financial statements. Additionally, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Not-for-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Albuquerque, New Mexico
September 24, 2004

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

Introduction

The management of New Mexico Highlands University (University) herewith presents its financial statements and required supplementary information for the year ended June 30, 2004 (FY04). This is the second year for which 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 FY04, the University has made significant progress in its overall financial position and availability of working capital. For example, net assets increased 21%, from \$41.2 million to \$49.8 million, and cash/cash equivalents doubled, from \$4.4 million to \$9.0 million. The enclosed financial statements and footnotes, in conjunction with budgetary projections for FY05, show that the University has laid the financial foundation and prerequisites to carry out the ambitious goals of the new Strategic Plan for 2003 – 2008. (The Strategic Plan is available to the public on the University’s web site: www.nmhu.edu.)

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

Discussion of Statement of Net Assets

Current assets increased 47% during the year. The ending balance of \$17.2 million consists primarily of cash/cash equivalents (\$9 million) and receivables (\$7 million). Cash/cash equivalents increased 104%. However, it should be noted that all cash and cash equivalents are essential and completely designated for ongoing operations and are unavailable to pay off the University's outstanding bank loans at once. In addition, it should be noted that the University has implemented and is following procedures to collect receivables in a timely manner and that it is well able to meet all its current financial obligations.

The total cost of **Capital assets** is comprised of land, buildings and improvements (\$61.9 million); construction-in-progress (\$17.4 million); and library books, equipment, vehicles, and furniture (\$21 million). Construction-in-progress mainly represents the University's new Ivan Hilton Center for Science and Technology, which opened for classes in the Fall of 2004. Under the new GASB 34/35 standards, all capital assets, except land and construction-in-progress, are being **depreciated**, meaning that a percentage of the assets' cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$43 million (\$100.3 million cost less \$57.3 million accumulated depreciation).

Total liabilities of \$14.4 million constitute 22% of total assets and consist primarily of payables/accrued liabilities (\$4.8 million), bonds/notes payable (\$7.6 million), and deferred revenue (\$2 million). The latter represents money that has been received from granting agencies, but not yet earned.

Total net assets increased \$8.7 million, or 21%, during the year. (Over a two-year period, net assets increased \$17.9 million, or 56%.) The ending balance of \$49.8 million is derived by deducting total liabilities from total assets and shows the composition of the University's equity. Restricted for nonexpendable (\$4.1 million) represents the University's endowment corpus, whereas restricted for expendable (\$3.6 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$5.1 million) are available to the University for any lawful purpose.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

The **Foundation's net assets** increased \$0.7 million, from \$2.3 million to \$3 million, due to the fact that expenditures were kept below the revenue level.

Net Assets as of June 30, 2004 and 2003 (thousands)		
	2004	2003
Assets:		
Current assets	\$17,190	\$11,687
Endowment investments	4,054	3,594
Capital assets, net of accum. depr.	<u>42,984</u>	<u>40,913</u>
Total assets	<u>64,228</u>	<u>56,194</u>
Liabilities:		
Current liabilities	7,136	6,923
Non-current liabilities	<u>7,257</u>	<u>8,110</u>
Total liabilities	<u>14,393</u>	<u>15,033</u>
Net Assets:		
Invested in capital assets, net of debt	37,054	32,365
Restricted for nonexpendable	4,108	3,594
Restricted for expendable	3,579	2,308
Unrestricted	<u>5,094</u>	<u>2,894</u>
Total net assets	<u><u>\$49,835</u></u>	<u><u>\$41,161</u></u>

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 \$12.4 million during the year. According to the new accounting standards, operating expenses (\$52.6 million) are subtracted from operating revenues (\$33.4 million), resulting in an "operating loss" (\$19.1 million). However, the latter is not very meaningful, since it excludes state general fund appropriations (\$24.5 million), which are required to be classified as non-operating revenue, because they are provided to the University without the state receiving commensurate goods and services for this revenue. Since state general fund appropriations are essential for the University to carry out its instructional and public service mission, the reader should focus on the \$5.6 million "**Income before other revenue, expenses, gains and losses**" achieved during the year.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

Added to this income is \$6.8 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 \$12.4 million. However, this increase is reduced by an adjustment of \$3.7 million, to account for additional accumulated depreciation that was omitted in the prior year.

Analysis of tuition and fees revenue				
	<u>2004</u>	<u>2003</u>	<u>Incr (Decr)</u>	
Tuition	\$5,436	\$4,970	\$466	9.4%
Fees	<u>1,720</u>	<u>1,642</u>	<u>78</u>	4.8%
Subtotal	7,156	6,612	544	8.2%
Tuition discounts/allowances	<u>(1,016)</u>	<u>(2,583)</u>	<u>1,567</u>	-60.7%
Net	<u><u>\$6,140</u></u>	<u><u>\$4,029</u></u>	<u><u>\$2,111</u></u>	52.4%

Tuition and fees, net of discounts and allowances, increased 52%; 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 \$0.5 million, or 8%.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

State general fund appropriations increased \$3 million (14%), primarily due to the fact that the University's funding base (work load) for Instruction & General was increased for FY04, because the University's student credit hours had exceeded the required 3% threshold.

Activities for the Year ended June 30, 2004 and 2003 (thousands)		
	2004	2003
Operating revenues:		
Tuition and fees, net	\$6,140	\$4,029
Grants and contracts	23,973	22,953
Sales and services	2,474	2,368
Other revenue	859	3,086
Total operating revenues	<u>33,446</u>	<u>32,436</u>
Operating expenses:		
Instruction and general	28,889	28,674
Other operating expenses	19,674	17,292
Depreciation	3,993	3,206
Total operating expenses	<u>52,556</u>	<u>49,172</u>
Operating loss	<u>(19,110)</u>	<u>(16,736)</u>
Non-operating revenue:		
State general fund appropriations	24,511	21,560
Interest and investment income	225	51
Income before other rev., exp., gains, losses	<u>5,626</u>	<u>4,875</u>
Other revenue:		
Capital grants and gifts, net	6,763	4,323
Increase in net assets	<u>12,389</u>	<u>9,198</u>
Net assets, beginning, unadjusted	41,161	80,265
Inclusion of interest of State Permanent Fund	-	2,015
Deferred revenue in fund balance	-	(1,591)
Cumulative effects - depreciation	<u>(3,715)</u>	<u>(48,726)</u>
Net assets, beginning, as adjusted	<u>37,446</u>	<u>31,963</u>
Net assets, ending	<u>\$49,835</u>	<u>\$41,161</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

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 \$4.6 million net increase during the year, resulting in an ending balance of \$9 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.

Statement of Cash Flows for the Year ended June 30, 2004 and 2003 (thousands)		
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Tuition and fees	\$6,912	\$6,765
Grants and contracts	23,606	23,488
Sales and services	2,474	2,368
Other operating receipts and sources	800	2,990
Payments to employees for compensation	(22,475)	(20,909)
Payments to suppliers	<u>(26,977)</u>	<u>(27,829)</u>
Net cash used by operating activities	<u>(15,660)</u>	<u>(13,127)</u>
Cash flows from noncapital financing activities:		
State general fund appropriations	24,511	21,560
Capital grants and gifts	<u>6,762</u>	<u>4,323</u>
Net cash provided by noncapital financing activ.	<u>31,273</u>	<u>25,883</u>
Cash flows in (out) from investment activities, net	<u>(235)</u>	<u>131</u>
Cash flows from capital and related financing activities:		
Cash paid for capital assets	(9,834)	(8,674)
Repayments of bonds payable	(700)	(665)
Repayments of notes and capital lease payable	<u>(265)</u>	<u>(335)</u>
Net cash used by capital and related fin. activ.	<u>(10,799)</u>	<u>(9,674)</u>
Net increase in cash and cash equivalents	4,579	3,213
Cash and cash equivalents, beginning	<u>4,424</u>	<u>1,211</u>
Cash and cash equivalents, ending	<u><u>\$9,003</u></u>	<u><u>\$4,424</u></u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

Discussion of Significant Capital Projects

During FY04, the University continued construction of an \$18.2 million, state-of-the art science building and substantially completed it. 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 FY05 and beyond to significantly address the University's capital project and infrastructure needs.

Per Note 4 – Property, Plant and Equipment, two items were capitalized during the year:

1. artwork (\$143,300), which was an art collection donated to the Foundation and then transferred to the University's Library;
2. buildings (\$146,803), which represents the re-roofing of Sala de Madrid.

Discussion of Budget Comparisons

Towards the back of the notes to the financial statements, the reader will find five schedules that show the fiscal year's original budget, final budget, actual results and variances between the latter two, at varying levels of fund combinations. The schedules show revenues, beginning fund balances and expenditures, but exclude transfers into and from the described funds. The schedules are prepared on the budgetary basis vs. the accrual basis of accounting.

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 fact that the original budget (a) overstated the amount of general fund appropriations by \$410,000 and (b) included an unallocated amount of \$1.9 million in Institutional Support. The original budget had been approved

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

by the Department of Finance & Administration, before the Commission on Higher Education had the opportunity to submit a revision, which corrected the revenue error and allocated the \$1.9 million among the I&G exhibits. These adjustments were reflected in the University's first budget adjustment request at the beginning of the year.

The line item "Other Sources" shows that actual revenue exceeded the final budget by \$638,801, primarily due to the receipt of indirect cost recovery revenue in excess of budget. This also explains the \$585,081 variance in "Other Sources" on the **Unrestricted Current Funds** schedule. Variances shown in the "Cash balance budgeted" line item were caused because the original budget projected an estimated balance, whereas the final budget and actual columns reflect the actual ending balance achieved in the prior year. The favorable variances of expenditures are due to administratively-initiated budget containment and voluntary deferral or suspension of non-critical purchases.

Economic Outlook

For the fiscal year ending June 30, 2005 (**FY05**), the University received \$1.3 million (5.8%) in increased funding from the state general fund for Instruction & General, primarily due to an increase in student enrollment. The 2004 Legislature appropriated \$6.8 million for various projects for FY05/06, including student housing improvements (\$2.5 million) and renovation of the old science building (\$3 million). The University's FY05 budget projects a healthy 5.4% ending balance for the Instruction & General fund and a 5.5% balance for total current funds (ending balance as a percentage of expenditures.) No deficits are projected in any of the University's funds. (A small deficit in Athletics will be eliminated during FY05.)

For **FY06**, the University does not qualify for a base funding adjustment (via the Commission on Higher Education's funding formula), because student credit hours in FY04 did not increase at least 3%.

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 software development programs. In addition, it is actively engaging in strategically relevant partnerships throughout Northern New Mexico and the entire state.

For more detail and explanations, the reader should refer to the notes and the other required supplementary information contained in this document.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2004**

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, 2004**

	Primary Government	Component Unit
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,003,355	204,881
Student accounts receivable, net of an allowance of \$1,990,665	1,008,975	-
Third party receivable	1,109,618	-
Grants receivable, net of an allowance of \$907,364	2,661,150	-
Other receivables	2,172,524	18,893
Inventories	706,030	-
Prepaid assets	528,597	3,867
Total current assets	<u>17,190,249</u>	<u>227,641</u>
Noncurrent Assets		
Investments	4,054,181	2,283,234
Capital assets, net of accumulated depreciation	42,983,917	2,698,506
Total noncurrent assets	<u>47,038,098</u>	<u>4,981,740</u>
Total assets	<u>\$ 64,228,347</u>	<u>5,209,381</u>
LIABILITIES		
Current Liabilities		
Payables and accrued liabilities	\$ 4,100,216	27,467
Accrued compensated absences	83,337	-
Deferred revenue	2,048,052	-
Bonds payable-current portion	735,000	-
Notes payable-current portion	169,905	234,263
Total current liabilities	<u>7,136,510</u>	<u>261,730</u>
Noncurrent Liabilities		
Accrued compensated absences	578,571	-
Bonds payable long-term portion	5,195,000	-
Assets held for others	-	37,500
Notes payable-long term portion	1,483,049	1,954,562
Total noncurrent liabilities	<u>7,256,620</u>	<u>1,992,062</u>
Total liabilities	<u>14,393,130</u>	<u>2,253,792</u>
NET ASSETS		
Invested in capital assets, net of debt	37,053,919	509,681
Restricted for		
Nonexpendable		
Restricted for scholarships and grants	4,107,593	2,181,928
Expendable		
Loans	1,500,632	-
Capital projects	834,192	-
Debt service	1,244,507	-
Unrestricted	5,094,374	263,980
Total net assets	<u>49,835,217</u>	<u>2,955,589</u>
Total net assets and liabilities	<u>\$ 64,228,347</u>	<u>5,209,381</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, 2004**

	Primary Government	Component Unit
Operating revenues		
Tuition and fees	\$ 7,156,400	-
Tuition discounts and allowances	(1,016,048)	-
	<hr/> 6,140,352	
Federal grants and contracts	15,180,092	-
State and local grants and contracts	6,785,370	-
Private grants and contracts	2,007,503	-
State land, permanent fund and investment income	152,699	110,385
Sales and services of auxiliary enterprises	2,473,785	-
Contributions	-	1,185,937
Other	706,000	723,349
Total operating revenues	<hr/> 33,445,801	<hr/> 2,019,671
Expenses		
Instruction and general		
Instruction	15,407,267	-
Academic support	2,371,249	-
Student services	2,882,332	-
Institutional support	4,494,277	-
Operations and maintenance support	3,733,794	-
	<hr/> 28,888,919	-
Student social/cultural development	582,769	-
Research	3,590,719	-
Public service	7,546,287	-
Student aid grants and stipends	4,852,135	87,296
Tuition discounts and allowances	(1,016,048)	-
Auxiliary enterprises	2,134,580	-
Athletics	1,482,104	-
Other expenditures	501,064	1,200,038
Depreciation	3,992,948	57,699
Total expenses	<hr/> 52,555,477	<hr/> 1,345,033
Operating (loss) income	<hr/> (19,109,676)	<hr/> 674,638

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, 2004**

	Primary Government	Component Unit
Non operating revenues (expenses)		
State appropriations	\$ 24,510,400	-
Interest and investment income	225,133	-
Net nonoperating revenues	<u>24,735,533</u>	<u>-</u>
Income before other revenues, expenses, gains and losses	<u>5,625,857</u>	<u>674,638</u>
Other		
Capital grants and gifts, net	<u>6,763,277</u>	<u>-</u>
Increase in net assets	<u>12,389,134</u>	<u>674,638</u>
Net assets		
Net assets - beginning of year	41,161,420	2,280,951
Adjustment to capital assets	<u>(3,715,337)</u>	<u>-</u>
Net assets, beginning of year, as adjusted	<u>37,446,083</u>	<u>2,280,951</u>
Net assets, end of year	<u><u>\$ 49,835,217</u></u>	<u><u>2,955,589</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2004**

	Primary Government	Component Unit
Cash Flows From Operating Activities		
Contributions	\$ -	1,456,174
Tuition and fees	6,911,787	-
Grants and contracts	23,605,782	-
Sales and services of educational activities	2,473,785	-
Other operating receipts	799,765	497,670
Payments to employees for salaries and benefits	(22,475,026)	-
Payments to suppliers	(26,976,684)	(1,275,582)
Net cash (used) provided by operating activities	<u>(15,660,591)</u>	<u>678,262</u>
Cash Flows From Noncapital Financing Activities		
State appropriations	24,510,400	-
Capital grants	6,763,277	-
Net cash provided by noncapital financing activities	<u>31,273,677</u>	<u>-</u>
Cash Flows From Investment Activities		
Purchases of investments	(559,856)	(296,202)
Sales of investments	430,868	-
Unrealized gain on assets	(331,047)	-
Interest received on investments	225,133	-
Net cash used by investment activities	<u>(234,902)</u>	<u>(296,202)</u>
Cash Flows From Capital and Related Financing Activities		
Cash paid for capital assets	(9,834,652)	-
Repayments of bonds payable	(700,000)	-
Repayments of notes and capital lease payable	(264,702)	(209,419)
Net cash used by capital and related financing activities	<u>(10,799,354)</u>	<u>(209,419)</u>
Net increase in cash and cash equivalents	4,578,830	172,641
Cash and cash equivalents, beginning of year	<u>4,424,525</u>	<u>32,240</u>
Cash and cash equivalents, end of year	<u>\$ 9,003,355</u>	<u>204,881</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2004**

	Primary Government	Component Unit
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating (loss) income	\$ (19,109,676)	674,638
Adjustments to reconcile operating (loss) income to net cash used by operating activities		
Depreciation expense	3,992,948	57,699
Unrealized gain/loss on investments	-	(109,965)
Loss on disposal of assets	55,373	-
Changes in assets and liabilities		
Receivables	(741,761)	6,822
Inventories	(123,855)	-
Other assets	(58,934)	(184)
Accounts payable and accrued expenses	331,962	11,752
Deferred revenue	129,965	37,500
Investment and interest income	-	-
Compensated absences	(136,613)	-
	<hr/>	<hr/>
Net cash (used) provided by operating activities	\$ (15,660,591)	678,262
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

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, 2004**

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

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, 2004**

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

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 Commission on Higher Education (CHE) in formulating its budgets and in exercising budgetary control. It is through the CHE'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 will then submit an original typed copy that has been approved by the institution's regents to the CHE's office by May 1st.
2. The CHE meets in June and acts on approval of the budgets.
3. The budgets, as approved by the CHE, 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 appropriation by the University in subsequent years pursuant to the General Appropriation Act of 2003, Section J.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

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

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 CHE 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* change in unrealized gain (loss) on the carrying value of investments are reported as a component of 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, 2004**

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

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 2004, are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2004. 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 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. Accrued vacation up to 120 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. The accrual direct and incremental salary related payments such as, the employees share of social security taxes.

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, 2004**

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

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, 2004**

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

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

The University maintains a cash and cash equivalent pool that is available for use by all funds.

University deposits are made in demand and time deposits at local financial institutions. State statutes require financial institutions to pledge qualifying collateral to the University to cover at least 50% of the uninsured deposits; however, the University requires more collateral as it considers prudent. All collateral is held in third party safekeeping.

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	\$ 200,000	6,468,601	6,092,252	12,760,853

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 3. INVESTMENTS

Investments. In accordance with Article 10, NMSA, 1978 Compilation, University non-endowment funds investments may only be made in U.S. Treasury Securities and repurchase agreements. Investments are made through local financial institutions and are held in safekeeping in their trust departments. Repurchase agreements are collateralized by U.S. Treasury Securities with a market value of at least 102% of the principal and are used for overnight investment only. The investment of University endowment funds is in accordance with the laws of 1991, Chapter 69 of the State of New Mexico.

Stocks, Bonds, and Similar Investments. In addition to sharing in the pooled cash and investments, the endowment fund and special investment account portfolio contains stocks, bonds, and similar investments of \$1,854,916 (cost of \$1,623,430).

A summary of the University's investments at June 30, 2004, by category of credit risk described below, is as follows:

Investments	Category 1	Category 2	Cost	Market Value
United States Treasury				
Bills	\$ 332,233	-	308,530	332,233
Stocks and Bonds	-	1,522,683	1,314,900	1,522,683
	<u>\$ 332,233</u>	<u>1,522,683</u>	<u>1,623,430</u>	1,854,916
State Investment Council - Permanent Fund				<u>2,199,265</u>
Total investments				<u>\$ 4,054,181</u>

State Investment Council Assets. The University has an undivided interest in assets of the State of New Mexico Permanent Fund.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 3. INVESTMENTS (CONTINUED)

In accordance with GASB Statement No. 3, University investments have been categorized into the following two categories of credit risk:

- Category 1 Investments that are insured or registered or for which the securities are held by the University of its agent in the University's name.
- Category 2 Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the University's name.
- Category 3 Uninsured and unregistered with securities held by the counterparty, or by its trust department.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Following are the changes in capital assets for the University for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Capital assets not being depreciated					
Land	\$ 1,915,932	-	-	-	1,915,932
Artwork	-	-	143,300	-	143,300
Construction in-progress	9,755,126	7,620,249	-	-	17,375,375
Total capital assets not being depreciated	\$ 11,671,058	7,763,549	143,300	-	19,434,607
Other capital assets					
Land improvements	\$ 2,860,653	-	-	-	2,860,653
Buildings	57,003,110	146,803	-	-	57,149,913
Furniture, fixtures and equipment	12,975,764	1,716,256	-	875,632	13,816,388
Library materials	6,819,601	398,271	-	147,552	7,070,320
Total other capital assets	79,659,128	2,261,330	-	1,023,184	80,897,274
Less accumulated depreciation for					
Land improvements	1,614,117	165,532	-	-	1,779,649
Buildings	38,532,617	1,937,588	-	-	40,470,205
Furniture, fixtures and equipment	8,638,048	1,413,757	-	820,259	9,231,546
Library materials	5,538,045	476,071	-	147,552	5,866,564
Total accumulated depreciation	54,322,827	3,992,948	-	967,811	57,347,964
Other capital assets, net	\$ 25,336,301	(1,731,618)	-	55,373	23,549,310

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Balance June 30, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Capital assets summary					
Capital assets not being depreciated	\$ 11,671,058	7,763,549	-	-	19,434,607
Other capital assets, at cost	79,659,128	2,261,330		1,023,184	80,897,274
Total cost of capital assets	91,330,186	10,024,879	-	1,023,184	100,331,881
Less accumulated depreciation	54,322,827	3,992,948	-	967,811	57,347,964
Capital assets, net	<u>\$ 37,007,359</u>	<u>6,031,931</u>	-	<u>55,373</u>	<u>42,983,917</u>

During the year it was noted by management that construction in progress had been reported incorrectly for the 2003 year resulting in a reduction of construction in progress of \$1,136,509. In addition, depreciation was understated because of an error in recording of equipment and formulas used in developing current year depreciation. The total amount of depreciation of \$2,578,828 was adjusted to beginning balances, which resulted in a net adjustment to fund balance of \$3,715,337.

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the University for the year ended June 30, 2004, is as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Bonds payable				
Long-term bond payable	\$ 5,930,000	-	735,000	5,195,000
Current portion of bonds payable	700,000	735,000	700,000	735,000
	<u>6,630,000</u>	<u>735,000</u>	<u>1,435,000</u>	<u>5,930,000</u>
Notes payable				
Long-term portion				
BLV loan #217623	329,233	277	27,998	301,512
BLV loan #2120000	1,336,843	-	155,306	1,181,537
Total long-term	<u>1,666,076</u>	<u>277</u>	<u>183,304</u>	<u>1,483,049</u>
Current portion				
BLV loan #217623	26,922	27,998	26,922	27,998
BLV loan #2120000	133,098	141,907	133,098	141,907
Total current	<u>160,020</u>	<u>169,905</u>	<u>160,020</u>	<u>169,905</u>
Total	<u>1,826,096</u>	<u>170,182</u>	<u>343,324</u>	<u>1,652,954</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Capital lease				
Long-term portion	\$ -	-	-	-
Current portion	91,560	-	91,560	-
	<u>91,560</u>	<u>-</u>	<u>91,560</u>	<u>-</u>

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Accrued compensated absences				
Long-term portion	\$ 513,386	148,522	83,337	578,571
Current portion	65,185	83,337	65,185	83,337
	<u>578,571</u>	<u>231,859</u>	<u>148,522</u>	<u>661,908</u>

NOTE 6. NOTES PAYABLE

New Mexico Highlands University has a note payable with a bank the purpose of which was used to pay off existing real property indebtedness. Additionally, the University signed an overdraft protection agreement with The Bank of Las Vegas in June 2000, which the University changed the agreement into a five-year term note in July 2002.

A summary of the notes payable at year-end is as follows:

Note payable with a bank, payable on November 18, 2007 with 59 monthly Payments of \$3,605 and one irregular last payment of \$231,699 at 4.75% per annum. The note is unsecured.	\$ 329,510
Five-year note with a bank, payable on July 30, 2007 with 59 monthly payments of \$16,403 and one irregular last payment of \$900,202 at 4.75% per annum. The note is secured with real estate.	<u>1,323,444</u>
	<u>\$ 1,652,954</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 6. NOTES PAYABLE (CONTINUED)

The scheduled maturities of notes payable for the University are as follows:

	Principal	Interest	Total
2005	\$ 169,905	70,191	240,096
2006	174,594	65,502	240,096
2007	182,806	57,290	240,096
2008	<u>1,125,649</u>	<u>3,821</u>	<u>1,129,470</u>
	<u>\$1,652,954</u>	<u>196,804</u>	<u>1,849,758</u>

NOTE 7. 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,
2005	\$ 735,000	268,200	1,003,200
2006	770,000	235,860	1,005,860
2007	805,000	201,980	1,006,980
2008	845,000	165,755	1,010,755
2009-2011	<u>2,775,000</u>	<u>260,990</u>	<u>3,035,990</u>
	<u>\$ 5,930,000</u>	<u>1,132,785</u>	<u>7,062,785</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004**

NOTE 8. RISK MANAGEMENT

Self Insurance Plan. The University has a self insurance plan for employee medical coverage. They limit their 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. The liability for claims incurred as of June 30, 2004 was \$2,170,311. The surplus in amounts collected from the University and its covered employees for payment of health claims as of June 30, 2004 was \$134,672. The following reconciles the activity in the liability during the year:

Liability for claims as of June 30, 2003	\$ 144,263
Premiums collected by the University and covered participants	2,475,923
Claims paid during the year	(2,170,311)
Administrative fees paid during the year	<u>(315,203)</u>
Surplus premiums collected as of June 30, 2004	134,672
Unpaid claims incurred as of June 30, 2004	<u>(431,986)</u>
Deficiency of premiums to pay current claims	<u>\$ (297,314)</u>

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

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

NOTE 9. 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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 9. EMPLOYEE BENEFITS (CONTINUED)

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, 2004, was \$56,586 which has been charged to expenditures.

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

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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 9. EMPLOYEE BENEFITS (CONTINUED)

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

Funding Policy. Plan members are required to contribute 7.6% 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 for the years ending June 30, 2004, June 30, 2003, and June 30, 2002 were \$2,620,981, \$2,615,314, and \$2,687,804, respectively, equal to the amount of the required contribution for each year.

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

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

Eligible retirees are those who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person’s behalf.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee’s annual salary. Each participating employee contributes to the fund an employee contribution in an amount equal to .65% of the employee’s annual salary. Each participating retiree pays a monthly premium.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 9. EMPLOYEE BENEFITS (CONTINUED)

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, 810 W. San Mateo, Santa Fe, New Mexico 87501.

The University remitted \$224,124 and \$243,342 in employer contributions for years ended June 30, 2004 and June 30, 2003.

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan. With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 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 \$76,910 to the ERA for the alternative plan and \$144,848 to the various carriers for the year ended June 30, 2004. Employees contributed \$194,839 to the various carriers under the alternative plan during the year ended June 30, 2004.

NOTE 10. LEASES

At June 30, 2004, the University had various operating lease arrangements summarized as follows:

Operating Leases. Rent expense for operating leases amounted to \$833,153 for the year ended June 30, 2004.

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2004:

Year Ending June 30	Operating Leases
2005	\$ 543,684
2006	417,386
2007	369,997
2008	366,191
2009-2013	1,824,615
2014-2018	<u>1,459,692</u>
	<u>\$ 4,981,565</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004**

NOTE 11. COMMITMENTS AND CONTINGENCIES

At June 30, 2004, 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:

Unrestricted Current Funds	<u>\$ 1,236,831</u>
Plant Funds	<u>\$ 2,127,539</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 audits 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 university defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. Annual premiums are paid to the Office of Risk Management for coverage provided in the following areas:

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 12. RECONCILIATION OF BUDGET BASIS TO GAAP

Budget basis expenditures	\$ 60,250,883
Capital expenditures	(9,710,166)
Depreciation	3,992,948
Scholarship allowance	(1,016,648)
Bond payments	(700,000)
Notes and capital lease payments	<u>(261,540)</u>
Expenses per GAAP	<u>\$ 52,555,477</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 13. 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	\$ 112,050	-	92,831	204,881

NOTE 14. FOUNDATION INVESTMENTS

Investments. In accordance with Article 10, NMSA, 1978 Compilation, University non-endowment funds investments may only be made in U.S. Treasury Securities and repurchase agreements. Investments are made through local financial institutions and are held in safekeeping in their trust departments. Repurchase agreements are collateralized by U.S. Treasury Securities with a market value of at least 102% of the principal and are used for overnight investment only. The investment of University endowment funds is in accordance with the laws of 1991, Chapter 69 of the State of New Mexico.

Stocks, Bonds, and Similar Investments. In addition to sharing in the pooled cash and investments, the endowment fund and special investment account portfolio contains stocks, bonds, and similar investments of \$2,241,421 (cost of \$2,149,931).

A summary of investments at June 30, 2004, by category of credit risk described below, is as follows:

Investments	Category 1	Category 2	Cost	Market Value
Mutual Fund	\$ 618,436	-	618,436	618,436
Stocks and Bonds	-	1,622,986	1,531,495	1,622,986
Total investments	<u>\$ 618,436</u>	<u>1,622,986</u>	<u>2,149,931</u>	<u>2,241,422</u>
Cash value of life insurance				41,812
Total investments				<u>\$ 2,283,234</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 15. FOUNDATION PROPERTY, PLANT AND EQUIPMENT

Following are the changes in capital assets for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Capital assets not being depreciated					
Land	\$ 794,462	-	-	-	<u>794,462</u>
Other capital assets					
Buildings	<u>2,250,237</u>	-	-	-	<u>2,250,237</u>
Less accumulated depreciation for					
Buildings	<u>288,494</u>	<u>57,699</u>	-	-	<u>346,193</u>
Other capital assets, net	<u>\$ 1,961,743</u>	<u>57,699</u>	-	-	<u>1,904,044</u>
Capital assets summary					
Capital assets not being depreciated	\$ 794,462	-	-	-	794,462
Other capital assets, at cost	<u>2,250,237</u>	-	-	-	<u>2,250,237</u>
Total cost of capital assets	3,044,699	-	-	-	3,044,699
Accumulated depreciation	<u>(288,494)</u>	<u>(57,699)</u>	-	-	<u>(346,193)</u>
Capital assets, net	<u>\$ 2,756,205</u>	<u>57,699</u>	-	-	<u>2,698,506</u>

NOTE 16. FOUNDATION LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, is as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Notes payable				
Long-term portion	\$ 2,188,825	-	234,263	1,954,562
Current portion	<u>209,419</u>	<u>234,263</u>	<u>209,419</u>	<u>234,263</u>
Total	<u>\$ 2,398,244</u>	<u>234,263</u>	<u>443,682</u>	<u>2,188,825</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 17. FOUNDATION NOTES PAYABLE

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

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.

\$ 2,188,825

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

2005	\$ 234,263
2006	244,559
2007	255,307
2008	266,375
2009	<u>1,188,321</u>
	<u>\$ 2,188,825</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
COMBINED REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
State general fund appropriations	\$ 24,883,088	24,473,100	24,472,900	(200)
Federal revenue sources	13,777,233	12,983,243	12,819,944	(163,299)
Tuition and fees	6,431,291	6,689,464	6,870,855	181,391
Land and permanent fund	137,914	137,914	152,699	14,785
Endowments and private gifts	8,000	-	143,300	143,300
Other	29,502,014	20,958,420	21,051,058	92,638
Total revenues	<u>74,739,540</u>	<u>65,242,141</u>	<u>65,510,756</u>	<u>268,615</u>
Cash balance budgeted	239,932	1,690,514	1,690,514	-
Total revenues and cash balance budgeted	<u>74,979,472</u>	<u>66,932,655</u>	<u>67,201,270</u>	<u>268,615</u>
Expenditures				
Instruction and general	32,971,722	31,511,171	29,418,883	(2,092,288)
Student social and cultural	365,764	555,591	582,769	27,178
Research	5,545,852	4,112,676	3,590,719	(521,957)
Public service	8,765,617	5,649,746	7,546,287	1,896,541
Internal service departments	189,578	195,000	15,386	(179,614)
Student aid	5,086,953	4,710,976	4,700,082	(10,894)
Auxiliary enterprises	2,138,295	1,912,607	2,035,492	122,885
Intercollegiate athletics	1,443,844	1,439,844	1,482,104	42,260
Capital outlay	13,471,893	10,951,794	8,601,445	(2,350,349)
Renewal and replacements	1,004,216	1,421,001	893,470	(527,531)
Retirement of indebtedness	1,432,650	1,381,022	1,384,246	3,224
Total expenditures	<u>72,416,384</u>	<u>63,841,428</u>	<u>60,250,883</u>	<u>(3,590,545)</u>
Change in net assets-budgetary basis	\$ <u>2,563,088</u>	<u>3,091,227</u>	<u>6,950,387</u>	<u>3,859,160</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ 5,123,450	5,384,265	5,480,089	95,824
Miscellaneous fees	847,841	856,323	942,082	85,759
Government appropriations-federal	-	-	-	-
Government appropriations-state	24,883,088	24,473,100	24,472,900	(200)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	137,914	137,914	152,699	14,785
Private gifts	8,000	-	-	-
Sales & service	2,574,319	2,604,095	2,737,720	133,625
Other sources	1,926,580	2,027,270	2,612,351	585,081
Total revenues	35,501,192	35,482,967	36,397,841	914,874
Cash balance budgeted	(467,640)	585,281	585,281	-
Total revenues and cash balance budgeted	35,033,552	36,068,248	36,983,122	914,874
Expenditures				
Instruction and general	25,778,122	25,576,171	23,748,139	(1,828,032)
Student social and cultural	353,764	525,591	507,866	(17,725)
Research	979,852	985,676	618,347	(367,329)
Public service	740,217	812,746	698,524	(114,222)
Internal service departments	(41,422)	184,000	(3,805)	(187,805)
Student aid	377,605	377,606	274,873	(102,733)
Auxiliary enterprises	2,103,295	1,890,607	2,006,814	116,207
Intercollegiate athletics	1,437,844	1,437,844	1,479,739	41,895
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Total expenditures	31,729,277	31,790,241	29,330,497	(2,459,744)
Change in net assets-budgetary basis	\$ 3,304,275	4,278,007	7,652,625	3,374,618

**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, 2004**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ 5,123,450	5,384,265	5,480,089	95,824
Miscellaneous fees	401,541	285,743	365,980	80,237
Government appropriations-federal	-	-	-	-
Government appropriations-state	22,877,888	22,467,900	22,467,700	(200)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	137,914	137,914	152,699	14,785
Private gifts				
Sales & service	100,000	66,963	94,672	27,709
Other sources	1,600,000	1,739,145	2,377,946	638,801
Total revenues	30,240,793	30,081,930	30,939,086	857,156
Cash balance budgeted	(709,931)	232,668	232,668	-
Total revenues and cash balance budgeted	29,530,862	30,314,598	31,171,754	857,156
Expenditures				
Instruction	11,645,944	12,205,662	11,464,213	(741,449)
Academic support	2,041,504	2,236,295	2,179,182	(57,113)
Student services	2,110,632	2,215,542	1,934,339	(281,203)
Institutional support	6,544,643	4,984,709	4,454,857	(529,852)
Oper. & maint. of plant	3,435,399	3,933,963	3,715,548	(218,415)
Total expenditures	25,778,122	25,576,171	23,748,139	(1,828,032)
Change in net assets-budgetary basis	\$ 3,752,740	4,738,427	7,423,615	2,685,188

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
RESTRICTED CURRENT FUNDS
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	13,777,233	11,023,908	11,010,215	(13,693)
Government grants - state	8,649,715	5,549,362	6,694,409	1,145,047
Contracts - local	-	-	-	-
Private grants/contracts	2,326,000	1,724,100	2,193,301	469,201
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	143,300	143,300
Sales & service	-	-	-	-
Other sources	25,400	-	-	-
Total revenues	24,778,348	18,297,370	20,041,225	1,743,855
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	24,778,348	18,297,370	20,041,225	1,743,855
Expenditures				
Instruction and general	7,193,600	5,935,000	5,670,744	(264,256)
Student social and cultural	12,000	30,000	74,903	44,903
Research	4,566,000	3,127,000	2,972,372	(154,628)
Public service	8,025,400	4,837,000	6,847,763	2,010,763
Internal service departments	231,000	11,000	19,191	8,191
Student aid	4,709,348	4,333,370	4,425,209	91,839
Auxiliary enterprises	35,000	22,000	28,678	6,678
Intercollegiate athletics	6,000	2,000	2,365	365
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Total expenditures	24,778,348	18,297,370	20,041,225	1,743,855
Change in net assets-budgetary basis	\$ -	-	-	-

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
RESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	4,033,600	2,968,000	3,147,129	179,129
Government grants - state	3,000,000	2,832,000	2,277,216	(554,784)
Contracts - local	-	-	-	-
Private grants/contracts	160,000	135,000	103,099	(31,901)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	143,300	143,300
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	7,193,600	5,935,000	5,670,744	(264,256)
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	7,193,600	5,935,000	5,670,744	(264,256)
Expenditures				
Instruction	5,762,400	4,826,000	4,473,019	(352,981)
Academic support	73,680	38,800	192,067	153,267
Student services	1,274,520	1,016,000	947,992	(68,008)
Institutional support	75,000	41,600	39,420	(2,180)
Oper. & maint. of plant	8,000	12,600	18,246	5,646
Total expenditures	7,193,600	5,935,000	5,670,744	(264,256)
Change in net assets-budgetary basis	\$ -	-	-	-

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
 Year Ended June 30, 2004

Schedule 1
 Page 1 of 2

	Pledged Collateral		Bank of	Wells Fargo	Total
	Safekeeping Location	Type of Security	Las Vegas Las Vegas, NM	Albuquerque NM	
Funds on deposit					
Demand deposits			\$ 4,587,490	8,173,363	12,760,853
FDIC insurance					
Demand deposits			(100,000)	(100,000)	(200,000)
Total uninsured public funds			\$ 4,487,490	8,073,363	12,560,853
Fifty percent collateral requirement per section 6-10-17 NMSA			2,243,745	4,036,682	6,280,427
Pledged collateral	Federal Home Loan Bank Dallas Tx	FHLMC CUSIP #312XOB40	982,810	-	
		Treasury notes CUSIP #3133MYCH8	542,608	-	
		Treasury notes CUSIP #31371LHY8	-	874,203	
		Treasury notes CUSIP #31385HXE7	-	425,719	
		Treasury notes CUSIP #31385HJE7	-	538,961	
		Treasury notes CUSIP #31385JRT7	-	1,139,864	
		Treasury notes CUSIP #31385XD95	-	228,385	
		Treasury notes CUSIP #31391RP55	-	440,537	
		Treasury notes CUSIP #31401DCF6	-	738,290	
		Treasury notes CUSIP #36202DT76	-	557,224	
Deficiency / (Excess) of pledged collateral over the required amount			\$ 718,327	(906,502)	

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
For the Year Ended June 30, 2004**

**Schedule 1
Page 2 of 2**

Name of Bank	Account Type	Balance Per Bank Statement	Reconciled Balance Per Books
Bank of Las Vegas			
Account payable account	Checking	\$ 3,155,069	1,228,392
Payroll account	Checking	1,092,403	1,063,088
University wire-transfer account	Checking	83,990	83,990
Cash receipts account	Checking	229,031	262,638
Cashier's credit card account	Checking	14,493	17,755
Direct lending account	Checking	669	669
Flexible spending	Checking	11,835	11,835
Total		<u>4,587,490</u>	<u>2,668,367</u>
Wells Fargo Bank - Albuquerque			
Endowment pool account	Money Market	1,911,764	56,848
Rio Rancho business	Checking	82,612	86,039
Rio credit card	Checking	97,392	97,822
Savings account	Checking	6,026,748	6,026,748
NMHU business	Checking	54,847	54,847
Total		<u>8,173,363</u>	<u>6,322,304</u>
First National of Las Vegas			
Foundation		<u>175,402</u>	<u>192,780</u>
VISA			
Foundation		<u>6,547</u>	<u>12,101</u>
Petty cash			
		<u>-</u>	<u>12,684</u>
Foundation cash			
		<u>(181,949)</u>	<u>(204,881)</u>
Total cash and cash equivalents		<u>\$ 12,760,853</u>	<u>9,003,355</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004**

Federal Grantor/Program Title	Federal CFDA #	Expenditures
Research and Development Cluster		
NASA - ANO Ronald Clark	43.001	\$ 128,359
NASA - ANO Visiting Researchers	43.001	2,196
NASA - ANO Subawards	43.001	40,252
CCD Photometry of Vesta	43.001	17,650
NASA/Hydrocode Simulations6/00-5/01	43.001	8,696
NASA/Study of Forest Fires	43.001	55,975
NASA/Hydrocode Simulations 01-02	43.001	11,459
NASA-Hydrazine Air Filt. 1/02-1/05	43.001	47,860
NASA/-Astrobiology Inst. 8/02-08/05	43.001	204,385
NASA/NMHU Stu. Research. 8/02-07/03	43.001	10,029
NASA/AMES Stu. Research 12/02-12/05	43.001	52,643
NSF-Instrumentation Mineral 8/02-7/	47.05	82,650
NIH/Bridges 4/2000-3/2003	93.375	3,971
NIH Biomedical Research 6/03-12/03	93.865	80,087
NIH Score Admin. 9/02-8/03	93.375	70,764
NIH Score -Horne 9/02-8/03	93.375	122,641
NIH Score -Fox 9/02-8/03	93.375	137,508
NIH Score -Hill 9/02-8/03	93.375	55,971
NIH Score -Sammeth 9/02-8/03	93.375	202,255
NIH Score -Wiedenfeld 9/02-8/03	93.375	258,954
NIH Score -Shaw 9/02-8/03	93.375	86,245
NIH Score -Meyer 9/02-8/03	93.375	139,780
S&TA SOLAR DETOX	81.004	1,727
Passed through New Mexico State University		
NMSU-BRIN Task I 09/01/02 - 8/31/03	93.389	57,916
NMSU-BRIN Task II 09/02 - 8/31/03	93.389	54,097
NMSU-BRIN Task III 09/03-6/04	93.389	61,880
NMSU-BRIN Task IV 09/03-06/04	93.389	47,382
Passed through Arizona State University		
WEASO FALL 2003 9/03 -9/04	47.076	639
Total Research and Development Cluster		<u>2,043,971</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2004

Federal Grantor/Program Title	Federal CFDA #	Expenditures
Student Financial Aid Cluster		
Fed W/S - Instruction	84.033	\$ 103,264
Fed W/S - Academic Support	84.033	30,012
Fed W/S Student Services	84.033	74,277
Fed W/S - Institutional Support	84.033	14,512
Fed W/S - Operation & Maint.	84.033	4,814
Fed W/S - Social & Cultural	84.033	50,674
Fed W/S - Organized Research	84.033	4,118
Fed W/S - Public Service	84.033	8,763
Fed W/S - Internal Service	84.033	12,310
Fed W/S - Auxiliaries	84.033	20,070
Fed W/S - Athletics	84.033	2,365
Fed W/S America Reads/America Count	84.033	10,555
Fed Off Campus W/S 2001-2002	84.033	13,788
Federal PELL 1999-2000	84.063	2,995,830
Federal SEOG 1999 - 2000	84.007	186,314
Total Student Financial Aid Cluster		<u>3,531,666</u>
TRIO Programs Cluster		
Support Services 01-02	84.042A	513,142
Upward Bound 6/01 - 5/02	84.047A	20,208
Upward Bound 6/03 - 5/04	84.047A	420,705
Total TRIO Programs Cluster		<u>954,055</u>
US Department of Labor		
GOAL Program 10/99-4/02	17.253	<u>524,675</u>
US Department of Housing and Urban Development		
Science Building-HUD	14.246	<u>309,399</u>
US Bureau of Land Management		
Forest Management Prog. 9/01-8/02	10.652	24,356
HU Forest Management Prgm 3/03-9/04	10.652	151,074
Total US Bureau of Land Management Cluster		<u>175,430</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Year Ended June 30, 2004**

Federal Grantor/Program Title	Federal CFDA #	Expenditures
National Aeronautics and Space Administration		
AISTEC-Admin 12/99-11/00	43.001	\$ 14,538
AISTEC-Technology Ctr 7/01-7/02	43.001	1,528
NASA/Educational Outreach	43.001	3,306
NASA/Reaching Out for Science FY02	43.001	940
NASA/Educational Outreach FY02	43.001	660
Total National Aeronautics and Space Administration		<u>20,972</u>
US Department of Energy		
Science Building - DOE		<u>1,500,330</u>
US Department of Education		
US Dept of Ed/SWCC 10/01-9/02	84.283A	25,439
US Dept of Ed/SWCC-Admin 10/02-9/03	84.283A	832,243
US Dept of Ed/SWCC-Part 10/02-9/03	84.283A	723,475
San Miguel GEAR-UP	84.334A	1,365,291
Dept. of Ed. Career Ladder	84.195E	73,406
NMHU Dist. Ed Project10/01-09/02	84.031S	351,650
Dept. of Ed. - Rehab. Counseling	84.129B	13,119
CAMP-College Assist. Migrant Prog	84.149A	308,519
Training for All Teachers FY03	84.195B	35,266
Bilingual Ed. Career Ladder/Espanol	84195.E	7,571
Bilingual Ed. Career Ladder FY03	84195.E	241,989
Passed through New Mexico State University		
RETA/Regional Networks	84.303	<u>11,814</u>
Total US Department of Education		<u>3,989,782</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2004

US Department of Health and Human Services- Passed through NM Department of Children Youth and Families		
CYFD SW 07/03-06/04	93.658	\$ 1,930,377
Passed through NM Human Services Department Work Program 6/00-6/01	93.558	2,039,907
Passed through Eastern New Mexico University Work Readiness ABE PRGM 04/04-09/04	93.558	3,613
Passed through University of New Mexico PhD/Bridges Program 01-02	93.960	31,074
Passed through National Youth Sports Program Fund NYSP Summer 2004 6/04 -5/05	93-570	36,988
Total US Department of Human Services		<u>4,041,959</u>
 US Department of the Interior		
DOI Water Resource Inst.	15.805	11,013
DOI Conservation Landscape	15.805	398
U.S. Fish & Wildlife Service, Region 2	15.FFB	12,172
Total US Department of the Interior		<u>23,583</u>
 Health Resources & Services Administration, Bureau of Health Professionals Passed through University of New Mexico UNM Geriatric 02-03	93.969	<u>10,790</u>
 National Historical Publication & Records Commission Foundation/Coronado Expedition	89.003	<u>20,157</u>
Total federal awards expended		<u><u>\$ 17,146,769</u></u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
June 30, 2004**

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, 2004.

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 2004 or accrued revenue at June 30, 2004. 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, 2004, were \$1,403,973. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2004, were \$247,797. 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, 2004.

During the fiscal year ended June 30, 2004, the University processed \$7,246,284 of new loans under the Stafford Loan Program and Parents' Loans for Undergraduate Students.

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD. NE SUITE 400
ALBUQUERQUE, NM 87110

**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***

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Toney Anaya, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We have audited the financial statements of the New Mexico Highlands University (University) and the New Mexico Highlands Foundation's Inc., as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. 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 and its operation 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 item 03-5, 03-16, 04-1 and 04-2. In addition, it was noted that the component unit also had reportable conditions which are described in the accompanying schedule of findings and questioned costs as item 04-3.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Toney Anaya, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

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 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 weakness. However, We believe none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-4, 03-15 and 03-17.

This report is intended solely for the information and use of management, the University, the State Auditor, the cognizant audit agency and other federal audit agencies and is not intended to be, and should not be used by anyone other than these specified parties.

Albuquerque, New Mexico
September 24, 2004

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD. NE SUITE 400
ALBUQUERQUE, NM 87110

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

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Toney Anaya, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

Compliance

We have audited the compliance of the New Mexico Highlands University (University) with the types of compliance requirements described in the *US 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, 2004. The University's major federal programs are identified in the summary of auditors' 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 Not-for-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 on 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, 2004.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Toney Anaya, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation 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 compliance that, in our judgment, could adversely affect the University's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-7 and 04-4 through 04-6.

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 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. Our consideration of the internal control over compliance 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.

This report is intended solely for the information and use of management, the University, the State Auditor, the cognizant audit agency and other federal audit agencies and is not intended to be, and should not be used by anyone other than these specified parties.

Albuquerque, New Mexico
September 24, 2004

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004**

Finding	Status
99-1 Endowment Investment Policy	Repeated
99-2 Student Accounts Receivable	Resolved
01-9 Computer Policies and Procedures	Repeated
02-2 Trio Program-Unallowable Cost	Resolved
03-1 Budget Adjustment Requests	Resolved
03-2 Segregation of Duties	Resolved
03-3 Accounts receivable Restricted Funds	Resolved
03-4 Under Collateralized Accounts	Repeated
03-5 Special Audit	Modified and Repeated
03-6 Overload Policy and Signed Contracts	Modified and Repeated
03-7 Financial Aid Cluster	Modified and Repeated
03-8 CYFD Program-Unallowable Cost	Resolved
03-9 Trio Program-Unallowable Cost	Resolved
03-10 Cash Management	Resolved
03-11 Trio Program-Reporting	Resolved
03-12 Title VII (CESDP) Program-Subrecipient	Resolved
03-13 Suspension and Debarment	Resolved
03-14 Allowable Costs	Resolved
03-15 Travel and Per Diem	Modified and Repeated
03-16 Human Resources/Payroll	Modified and Repeated
03-17 Budget Overspending	Repeated

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a unqualified opinion on the financial statements of New Mexico Highlands University.
2. There were eight reportable conditions disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of New Mexico Highlands University disclosed during the audit.
4. There were three reportable conditions that were disclosed during the audit of major federal awards programs.
5. The auditors' report on compliance for the major federal awards programs for New Mexico Highlands University expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for New Mexico Highlands University are reported in Part C of this schedule.
7. The programs tested as major programs included:

	CFDA #
• Title VII	84.195
• Student Financial Aid Cluster	Various
• TRIO Program Cluster	Various
• WORK	93.558
• CYFD	93.658
• Research and Development	Various
8. The threshold for distinguishing Type A and Type B programs was \$514,103.
9. New Mexico Highlands University was determined to be a high risk auditee.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-4 Under Collateralized Accounts

CONDITION

The University has money at one institution that was not collateralized at fifty percent.

CRITERIA

Per NMSA Rule 6-10-17 NMSA 1978 Deposit and Investment of Funds, any public money invested in cash shall be fully secured by obligations of the United States or other securities backed by the United States having a market value of at least fifty percent of the institution after FDIC insurance.

EFFECT

One cash account was under collateralized by \$718,327 at June 30, 2004.

CAUSE

The University transferred a large amount near the end of the month and the bank did not have sufficient funds to cover the balance as of June 30.

RECOMMENDATION

A process should be implemented to monitor the University's ongoing compliance with NMSA 6-10-10 H.

MANAGEMENT RESPONSE

The University transferred approximately \$1.5 million to one of the bank's accounts at the end of June 2004, but it took the bank a few days to match the collateral requirement. The University is improving its procedures to ensure that bank collateral requirements are consistently met.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-5 Special Audit

CONDITION

The University contracted with a CPA firm to provide an update to special audit on the payroll/human resource and accounts payable system; specifically supplemental pay and travel/per diem reports in fiscal year 2004. The CPA firm noted the following:

- The University policies and procedures may not be in compliance with A-21 “Cost principles for Educational Institutions”.
- Five employees for which no contract was available. Four of these, a personnel action form was available.
- An additional seven instances where a contract for at least a portion of the number of hours for which an employee was paid was missing.
- Twenty-four instances of contracts that were accepted or approved after the start date of the contract, from a few as one day to as many as 49 days. In only two of these instances, the employee was not paid for any hours worked prior to the date of approval.
- Six instances where, due to a portion of an employee’s hourly wages being allocated to one Position Number and the remaining portion being allocated to another Position Number, twice as many hours worked were recorded as having been worked. These circumstances only resulted in inaccurate records of the number of hours an employee worked, not in overpayments to the employee.
- Four instances where Student Employment Hire Form were incomplete, involving missing starting and ending dates and missing position and FOAP numbers.
- Three employees with full-time contracts and overlapping supplemental contracts, where at least one contract was for a federal grant. These circumstances create possible overages per OMB Circular A-21.
- One employee with three overlapping Temporary Part-Time Contracts to teach courses with very similar titles. Not enough detail is provided to determine whether the employee is actually teaching different courses.
- The following exceptions related to timesheets:
 - Four timesheets that had addition errors; three which resulted in employees being overpaid.
 - One employee was paid \$.90 per hour more than was authorized on the contract.
 - One employee was paid \$4.85 more per hour and \$5.15 more per hour than was authorized on the contracts.
 - One instance where an employee’s supplemental contract indicates he should have received five biweekly payments during the quarter; he only received three (resulting in an underpayment).
 - One timesheet was not signed by the employee.
 - A timesheet signed and dated by the employee two days prior to the last day worked during that pay period.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-5 Special Audit (Continued)

CONDITION (CONTINUED)

- Thirteen instances where the number of hours worked during a week exceeded the number of hours the employee had been approved to work per week.
- One time sheet that indicated an employee used 8 hours of sick leave hours, but the Annual Leave/Sick Leave chart shows an increase of 8 hours for that date.
- One instance where an employee submitted two separate timesheets for hours worked on the same days, which resulted in the employee being paid for seven hours twice.

In addition, the CPA firm tested accounts payable and noted the following items:

- In one of the three travel samples, a travel voucher had not been approved. Although the related Travel Request Form was approved, it was approved after the travel advance check had already been written.
- One instance where the receipts provided did not tie to the amount of the check written.
- One instance where the check request contained an addition error. Rather than being paid for two days of per diem at \$30 per day, the vendor was paid for three days of per diem, resulting in a \$30 overpayment.
- One instance where a check request for distribution of payments to 107 individuals (including two on the AP sample) failed to separate the \$200 stipend payment for each recipient from the reimbursement for mileage and per diem.
- We also found multiple exceptions related to purchase orders. There were two instances where no purchase order was provided, two instances where the date of the purchase order was after the invoice order date, one instance where the amount of the disbursement exceeded the amount of the purchase order, and one instance where the number and price of the items on the purchase order differed from the number and price of the items ordered and received.

CRITERIA

- The University is required to follow OMB Circular A-21 “Cost Principles for Educational Institutions.”
- The University must ensure that all employees have current, valid and complete temporary, permanent and supplemental contracts, time sheets, and Student Employment Hire Forms in their personnel files and that these contracts and forms agree to the total amount paid to the employees. In addition, the hours worked within these contracts and must be recorded within the payroll system.
- Stipend payments must be monitored to ensure that the payees actually received stipend checks and the per diem and mileage is separated.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-5 Special Audit (Continued)

CAUSE

The University has not updated policies and procedures to encompass supplemental contracts and stipends.

EFFECT

The CPA firm determined that employees were paid incorrectly on supplemental contracts and time sheets and that purchase orders were incorrect.

RECOMMENDATION

- NMHU should continue their efforts to ensure the University policy conforms to OMB Circular A-21.
- Employee time sheets should be reviewed for mathematical accuracy and to ensure all hours for which an employee will be paid are covered by valid contracts.
- The start date of contracts, including Student Employment Hire Forms, should be modified to begin upon the date of approval. Prior to approval, and prior to an employee beginning to work, all contracts should be reviewed to ensure that pertinent information is included.
- The allocation, to various Position Numbers and FOAPs of an employee's hours worked should be split so the number of hours entered does not exceed the actual total number of hours worked.
- The descriptions entered for the work to be performed on supplemental contracts should be detailed enough to be able to determine whether a contract for that work has already been entered into.
- Orders should not be made prior to the issuance of an approved purchase order.
- Accounts payable procedures should be reviewed to determine that all stipends, honorarium, and disbursements possibly triggering a Form 1099 for the recipient are accurately tracked by the accounting system, rather than being tracked manually. The performance of an end of the year audit for 1099's is beneficial, but recording the 1099 events accurately when the expenses are entered would decrease the opportunity for errors.
- The total dollar amounts allocated to open purchase orders should be tracked so that excessive charges are not made.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-5 Special Audit (Continued)

MANAGEMENT RESPONSE

- The Faculty Research Committee has adopted a resolution prohibiting supplemental overload payments from funds derived from grants and contracts (i.e., restricted funds). This resolution is on the agenda of the November 2004 meeting of the Board of Regents. Furthermore, the University will review all its policies with respect to compliance with OMB Circular A-21 and propose any revisions, if appropriate.
- It is current University procedure to review all employee time sheets for mathematical accuracy and to ensure that all hours for which an employee will be paid are covered by valid contracts.
- The University is following its policy of not allowing employees to start providing services until a fully approved contract or Employee Hire Form has been executed. Training sessions for faculty and staff will be provided to ensure understanding of and compliance with this policy.
- Improvements will be made in the way staff is entering hours worked into the accounting system (Banner) to ensure that all data is entered correctly.
- See response under the first bullet above.
- The University is following its procurement policy, which prohibits the commitment of a purchase without prior execution of a purchase order. Training sessions for faculty and staff will be provided to ensure understanding of and compliance with this policy.
- It is current University procedure to process non-financial aid stipends through Accounts Payable and issue a Form 1099 at the end of the calendar year, and to process financial aid stipends through Student Accounts Receivable and issue a Form 1098-T at the end of the calendar year.
- The University is currently reviewing its procedure with respect to open purchase orders and will revise the procedure if/as appropriate.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-15 Travel and Per Diem

CONDITION

During our test work of travel and per diem disbursements we noted the following:

- In one instance out of 10 tested, proper approval was not granted for the President's travel. Rather than the Vice-President or the Controller granting approval, the President's Secretary authorized the travel.
- In one instance out of 10 tested, the disbursement was not an actual travel expense, but was coded to a travel account.
- In one instance out of 10 tested, the disbursement was recorded in the wrong fiscal year. The disbursement was for travel that occurred during fiscal year 2003, but was recorded into the general ledger in fiscal year 2004.
- In one instance out of 10 tested, proper approval was not obtained for an extravagant hotel stay.

CRITERIA

It is good policy to require approvals for all travel. Such approvals should be from an individual in an equal or superior position to the employee requesting travel.

It is also a good accounting control to verify that all disbursements are properly coded to the general ledger based on the purpose of the disbursement and the period in which the benefits from the expenditure occurred. This provides for more accurate financial presentation of the University.

The University's Travel Policy states:

- Section 10: "Travel advances are calculated up to 80% of the estimated reimbursable expenses, as approved on the Travel Request Form."
- Section 6.1: "The University will pay the reasonable cost of commercial 'coach' airfare."

Although the University's Travel Policy does not require this, the policy should be in compliance with NMAC 2.42.2. This states, employees who incur lodging expenses in excess of \$215 per night must obtain the signature of the agency head or chairperson of the governing board on the travel voucher prior to requesting reimbursement.

CAUSE

The Travel Policy was updated in July of fiscal year 2004. Accordingly, employees experienced some confusion with the change in policies.

In addition, clerical errors were the result of simple human oversight.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-15 Travel and Per Diem (Continued)

EFFECT

The University is not in compliance with its travel and per diem policy or NMAC 2.42.2. In addition, the expenditures of the University may not be properly stated.

RECOMMENDATION

All vouchers for travel and per diem should be reviewed for compliance with the Travel Policy before approval for payment. This review process could also serve as a check that the transactions are properly recorded into the financial records. The University should ensure their internal travel policy is in compliance with NMAC 2.42.2.

MANAGEMENT RESPONSE

Effective immediately, the University will change its travel procedures as follows:

- (a) all reimbursable travel by the President will be approved by the Vice President for Administrative Services or in his absence, by the Controller;
- (b) all travel requests that claim actual reimbursement of hotel charges in excess of allowable per diem amounts will be reviewed and approved by the Vice President for Administrative Services or in his absence, by the Controller;
- (c) the University will review its travel policy with respect to compliance with NMAC 2.42.2. and will propose revisions, if appropriate.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-16 Human Resources/Payroll

CONDITION

During our testwork of forty-seven employees we noted the following:

- One employee's time sheet indicated a different amount of sick leave from the payroll ledger and the accrued sick leave report.
- Twenty-three instances of the contracts being signed and dated after the start of contract.
- Four instances where time cards were not signed by either the employee or the supervisor

CRITERIA

Employees should be paid for actual leave taken and the accrued leave report should tie to the time sheet for all employees. The University needs to ensure contracts are signed in a timely manner and that all time cards are signed by both the employee and the supervisor.

EFFECT

Employee's vacation and/or sick leave balance may not be accurate. The pay rate and hours actually paid may not reflect the actual hours worked and/or authorized pay rate. The University could pay employees for contracts that may not be renewed and employees whose timecards are not complete

CAUSE

The accrued leave log was not adjusted to reflect actual leave taken by the employee. The employee's leave record reflected less leave time than the amount actually taken and contracts were not signed until after the start date.

RECOMMENDATION

Human Resources should ensure that leave reports reflect actual hours used and contracts are completed in a timely manner. The Payroll Department should implement procedures to ensure that leave amounts are recorded properly and time card signatures are complete.

MANAGEMENT RESPONSE

It is current University procedure to review all employee time sheets for mathematical accuracy and proper approval and to ensure that all hours for which an employee will be paid are covered by valid contracts. Banner payroll/HR system parameters will be reviewed and adjusted, and training will be conducted to allow accurate reporting of actual hours worked, as well as actual annual and sick leave hours taken. The University is following its policy of not allowing employees to start providing services, until a fully approved contract or Employee Hire Form has been executed. Training sessions for faculty and staff will be provided to ensure understanding of and compliance with this policy.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

03-17 Budget Overspending

CONDITION

We noted that the University overspent its approved budget in unrestricted current funds by the following: the Auxiliary Enterprise by \$116,207, and overspent in Intercollegiate Athletics by \$41,895

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 (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

04-1 LFC Audit

CONDITION

The Legislative Finance Committee completed a review of the operations of the University in October 2004 and provided the following comments:

- The University should look into court cases which have allowed public hospitals to remove some receivables from their ledgers.
- In cash reconciliations, it was noted that stale dated warrants from the general operating account were not made in a timely manner and were not in compliance with abandoned property statutes (7-8A NMSA 1978)
- The Board of Regents approved a note with a local bank that may violate the New Mexico Constitution.
- The University's *Handbook on Research Policy* indirectly addresses OMB Circular A-21 compliance, the *Faculty Handbook* can be clarified to directly address responsibilities for faculty compliance with federal grants.
- The University's pay day and the end of the pay period are the same day and on occasion, employees terminating in the middle of a pay period are overpaid because procedures do not allow for timely final payment adjustments.
- NMHU staff are not using the Banner accounting system capabilities for calculating leave balances resulting in unnecessary recordkeeping by NMHU staff.
- The banner system does not always correctly report hours worked, especially for faculty receiving grant funds and supplemental contracts.

CRITERIA

Good accounting controls or practices require that stale dated checks be resolved in a timely manner, the University use the capabilities of its accounting software to its fullest extent, correct anomalies in the payroll module, and review the timing of payroll payment process. The University is a state funded entity and is required to adhere to the abandoned property statutes.

CAUSE

The University is gaining the knowledge and understanding of their systems and the previous management made certain decisions based on currently known facts.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

04-1 LFC Audit (Continued)

EFFECT

The University is out of compliance with the abandoned property statutes and the issues could possibly lead to over payments in payroll and inefficient use of staff time

RECOMMENDATION

- The University should review the reconciliations on a regular basis to remove stale dated checks from the general operating account in accordance with accounting standards generally accepted in the United States of America and abandoned property statutes (7-8 NMSA 1978).
- Pay down the bank loan that may violate the New Mexico Constitution as soon as feasible and refrain from drawing on lines of credit in the future
- Modify and clarify NMHU policy in the *Faculty Handbook* regarding University and faculty responsibilities for compliance with OMB Circular A-21. Develop processes that review for records for federal grant compliance.
- Obtain an authoritative opinion on the applicability of court rulings allowing removal of uncollectible accounts from NMHU receivable ledger.
- Consistent with practices of other state agencies, allow one week for processing pay after the end of a pay period. Ensure that any previous and future over payments to terminated employees are collected.
- Use Banner accounting system to properly calculate leave balances and eliminate separate spreadsheet accounting.
- Ensure that Banner system is properly calculating and reporting hours worked, especially for faculty and lecturers receiving grant funds.

MANAGEMENT RESPONSE

- The University has implemented a procedure whereby reconciliations are being reviewed on a regular basis and stale-dated checks are being removed from the general operating account in accordance with accounting standards generally accepted in the United States of America and abandoned property statutes (7-8 NMSA 1978).
- The University will request that the 2005 Legislature appropriate money to enable the University to pay off the bank loan. The current administration is aware of the legal requirements to incur debt.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

04-1 LFC Audit (Continued)

MANAGEMENT RESPONSE (CONTINUED)

- The Faculty Research Committee has adopted a resolution prohibiting supplemental overload payments from funds derived from grants and contracts (i.e. restricted funds). This resolution is on the agenda of the November 2004 meeting of the Board of Regents. Furthermore, the University will review all its policies and procedures with respect to compliance with OMB Circular A-21 and propose/implement any revisions, if appropriate.
- The University will pursue obtaining an authoritative opinion, such as from the Attorney General, on the applicability of court rulings allowing removal of uncollectible accounts from NMHU receivable ledger.
- The administration has approved deferral by one week of the payment for the last week of services in December 2004, thereby creating a regular one-week delay in payroll and matching the practices of other state agencies.
- Banner payroll/HR system parameters will be reviewed and adjusted, and training will be conducted, to allow accurate reporting of actual hours worked, as well as actual annual and sick leave hours taken.
- Improvements will be made in the way staff is entering hours worked into the Banner accounting system, to ensure that all data is entered correctly.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

04-2 Donations

CONDITION

Upon our review of the relationship between the NM Highlands Foundation and the University, it was noted that the University pays for the salaries and benefits of Foundation personnel and provides space to the Foundation free of charge.

CRITERIA

Under the NM Constitution Article IX, Section 14, "Neither the state nor any county, school district or municipality, except as otherwise provided in this constitution, shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association or public or private corporation...."

CAUSE

The University was not aware of this issue.

EFFECT

The University may not be in compliance with Article IX, Section 14 of the New Mexico Constitution.

RECOMMENDATION

The University should consult with their attorneys to determine whether they are in compliance Article IX, Section 14 of the New Mexico Constitution.

MANAGEMENT RESPONSE

The University is reorganizing its development and fund-raising efforts under the Vice President for Research, Planning and Development/Graduate Studies. Those employees attributed to the Foundation will be working under the University's structure. Accordingly, the Foundation will not have employees and related expenses paid for by the University.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

04-3 FOUNDATION-Segregation of Duties

CONDITION

Upon our review of internal controls, we noted the following:

- The bookkeeper processes the cash payments and posts them into the general ledger with out any review process.
- There is not a consistent review of the cash reconciliations
- A log is prepared for cash received in the mail by the Executive Director, but the log is not compared to the deposit slip.
- The bookkeeper prepares the deposit, enters the information into the software, makes the deposits and reconciles the bank account for both checks received in the mail and cash received in the office.

CRITERIA

The segregation of duties is a critical in ensuring that financial information is accurate and timely.

CAUSE

The Foundation has limited staff to separate these functions.

EFFECT

The Foundation financial statements could be misstated during the year or the Foundation monies could be misappropriated without the Board's or management's knowledge.

RECOMMENDATION

The Foundation has a limited staff, but cash payments should be reviewed by the Executive Director or the Treasurer before payments are sent. The logs prepared by the Executive Director should be compared to the deposit slip and the transaction posting made by the bookkeeper to separate the cash receipt process.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

B. FINANCIAL STATEMENTS (CONTINUED)

04-3 FOUNDATION-Segregation of Duties (Continued)

MANAGEMENT RESPONSE

At the time of the audit, it was brought to the Foundation's attention that no one person should be responsible for acceptance of, deposit and recording of money to the general ledger. Procedures were put into place immediately to divide the acceptance of money, the logging of cash received, the preparation and reconciliation of cash to the bank deposit, the actual deposit in the bank, and the recording of the deposits to the general ledger. These duties have now been defined, spread and implemented over the three-person department.

The University is reorganizing its development and fund-raising efforts under the Vice President for Research, Planning and Development/Graduate Studies. Those employees attributed to the Foundation will be working under the University's structure. This arrangement will enable appropriate segregation of duties related to Foundation activities.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (CONTINUED)**

**03-7 Financial Aid Cluster
CFDA #: Various
Program name: Various
Compliance requirement: N. Special Tests and Provisions**

CONDITION

During our compliance test work, we noted that in 1 out of 10 files, the refund calculation and notification to students after student withdrawal from school was not completed within 30 days.

CRITERIA

Section N of the OMB-133A Compliance Supplement for the Federal Student Aid Cluster specifies that, in the event of withdrawal from school, the school must calculate the amount to be refunded to the program and notify the student within 30 days of the withdrawal date.

CAUSE

In one case the delay of refund calculation was due to the Financial Aid Board approval of a retroactive withdrawal date by a student.

EFFECT

The school was not in compliance with this requirement.

RECOMMENDATION

All withdrawals should be processed within the required 30 days.

MANAGEMENT RESPONSE

It appears as though the Financial Aid Office did not receive the documentation of the withdrawal until mid-March (the student withdrew on January 30, 2004). The Financial Aid Office continues to work to perfect its system to prevent oversight in the handling of withdrawal forms. For example, a weekly report will be run that will identify withdrawals and match this report to actual withdrawal forms that have been received. If documentation has not been received, a copy will be requested from the Registrar.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (CONTINUED)**

Questioned Costs

**04-4 Grants Receivable
CFDA #: 15.Unknown
Program name: Forest Management**

CONDITION

As part of the testing of restricted accounts receivable, we noted that the University incorrectly overcharged a federal grantor by \$1,013.36 as of June 30, 2004.

CRITERIA

It is good accounting practice to ensure that receivable balances are reviewed to ensure that balances are accurate.

CAUSE

Financial reports were not reviewed by a person independent of the preparer.

EFFECT

The University overcharged \$1,013.36 to the grantor.

RECOMMENDATION

The University should implement policies and procedures wherein receivable balances are reviewed by an individual independent of the preparation. The overcharge should be made up in the following fiscal year as through a reduction of expenditures reported.

MANAGEMENT RESPONSE

The University has implemented procedures wherein receivable balances are reviewed by an individual other than the preparer. The \$1,013.36 overcharge has already been corrected.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (CONTINUED)**

**04-5 Supplemental Contracts
CFDA No. 84.195 and Various
Program Name: Title VII and Research and Development Cluster**

CONDITION

As part of our testing of internal controls for federal payroll, we noted that two instances out of our sample of 47 individuals received supplemental contracts that are not allowed under OMB Circular A-21 and the University's faculty handbook is out of compliance with A-21 in relation to these supplemental contracts. In addition, we noted that 3 of the 4 contracts had been approved after the start date of the contract.

CRITERIA

The University is required to follow OMB Circular A-21 "Cost Principles for Educational Institutions" Section J.8.d "Salary Rates for Faculty Members"

d. Salary rates for faculty members.

(1) Salary rates for academic year. Charges for work performed on sponsored agreements by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the policy of the institution concerned, constitutes the basis of his salary. Charges for work performed on sponsored agreements during all or any portion of such period are allowable at the base salary rate. In no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period. This principle applies to all members of the faculty at an institution. Since intra-university consulting is assumed to be undertaken as a university obligation requiring no compensation in addition to full-time base salary, the principle also applies to faculty members who function as consultants or otherwise contribute to a sponsored agreement conducted by another faculty member of the same institution. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to his regular departmental load, any charges for such work representing extra compensation above the base salary are allowable provided that such consulting arrangements are specifically provided for in the agreement or approved in writing by the sponsoring agency.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (CONTINUED)**

04-5 Supplemental Contracts (Continued)

CRITERIA (CONTINUED)

The University's Faculty Handbook allows administrative overload supplemental contracts to exceed 15% of the faculty's annual contract, which on page 8.3 Section 3 "Work Under Fund Grant" states:

If faculty member secures a grant through New Mexico Highlands University, release time may be given from teaching duties....In such cases when release time from teaching duties is not feasible, the faculty member may be provided an administrative "overload" supplemental contract for additional duties incurred with the grant with the following provisos:

A. The administrative "overload" supplemental contract amount will not exceed 15 percent of the faculty member's annual contract amount....

Supplemental contracts must be approved prior to the start of the contract.

CAUSE

The University has not updated policies and procedures to encompass supplemental contracts for federal grants. Also, supplemental contracts were not approved prior to the start of work.

EFFECT

It appears that the University has overcharged federal programs by allowing employees to have supplemental contracts that are not outside the academic year and supplemental contracts were approved after the start of the contract.

RECOMMENDATION

- The University should review its policies regarding salaries from grants to ensure that the University policy conforms to OMB Circular A-21.
- Federal supplemental contracts should be reviewed to ensure that all employees are currently being paid according to OMB Circular A-21.
- Supplemental contract must be approved prior to the start of the contract.

MANAGEMENT RESPONSE

The Faculty Research Committee has adopted a resolution prohibiting supplemental overload payments from funds derived from grants and contracts (i.e. restricted funds). This resolution is on the agenda of the November 2004 meeting of the Board of Regents. Furthermore, the University will review all its policies with respect to compliance with OMB Circular A-21 and propose any revisions, if appropriate.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (CONTINUED)**

04-6 Grants and Contracts-Subrecipients	Questioned Costs
CFDA Number-Cluster	NONE
Program Name-Research and Development	
Compliance Requirement-Subrecipients	

CONDITION

During our testing of subrecipients, we noted that a subcontract between NMHU and Midcontinental Regional University and a subcontract between NMHU and West Ed., indicating the CFDA title and number, award name, Federal agency, amount of award and the requirement to follow OMB Circular A-133 had not been created.

CRITERIA

OMB Circular A-133, Part 6-M requires that the Federal award information and applicable compliance requirements be disclosed in an agreement that is signed by the awarding agency and the subrecipient.

EFFECT

NMHU is not in compliance with OMB Circular A-133 requirements for subrecipients.

CAUSE

The agreement between NMHU and the two Universities was incorporated into the proposal and a separate subcontract was not created.

RECOMMENDATION

We recommend that NMHU maintain a signed subcontract with all grant subrecipients.

MANAGEMENT RESPONSE

The University concurs with this finding and will implement appropriate procedures to follow the auditor's recommendation. For example, the administration is developing a plan to establish a restricted fund accounting group that will handle pre- and post-award review of all restricted fund proposals and full compliance after acceptance of the award.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

D. OTHER FINDINGS

99-1 Endowment Investment Policy

CONDITION

The University has two corporate bonds that exceed the University's fixed income value requirement at the time of purchase. The investment in Bank Boston comprises 12.0% of the fixed income portfolio. The investment in Donaldson, Lufkin, & Jenrette comprises 14.0% of the fixed income portfolio.

Thus, the asset allocation for the endowment fund does not comply with the guidelines established by the University.

CRITERIA

The University's endowment investment policy states, "Individual issues of non-government debt at the time of purchase are limited to a maximum of 10% of the total fixed income value without written approval of the University.

CAUSE

University personnel and/or consultants are not complying with the investment policies of the University.

EFFECT

The University is not in compliance with Board of Regents approved investment policies.

RECOMMENDATION

The University should modify the current investment policy to establish ranges that compensate for current market fluctuations or inform personnel and/or consultants in charge of investments of the University's approved investment policies to insure that portfolio structure and asset allocation is in compliance.

MANAGEMENT RESPONSE

During the next fiscal year the Foundation staff, responsible for the Foundation/Development Office accounting, will create a receivable aging schedule and the calculation of an allowance for uncollectible pledges receivable.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

D. OTHER FINDINGS

01-9 Computer Policies and Procedures

CONDITION

Although the CNS group has developed draft policies and procedures, University management has yet to adopt them. Also, Banner system policies and procedures have not been developed. For example, accounts payable procedures are dated 1994 and the Banner system was installed in 1999.

CRITERIA

Computer related policies and Banner policies and procedures should be established to ensure the system is operated in accordance with University mandates and requirements.

CAUSE

The University has not adopted computer related policies and procedures.

EFFECT

There is the likelihood for haphazard and inconsistent use of computers.

RECOMMENDATION

Develop and adopt complete information technology (IT) policies and procedures.

MANAGEMENT RESPONSE

The University concurs with the recommendation and has tasked the ITS Director to produce policies and procedures for the Board of Regents' consideration and adoption in January 2005. The policies and procedures will be reviewed and adopted by both the faculty and student governments.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2004**

D. OTHER FINDINGS

04-7 FOUNDATION-Pledge Receivables

CONDITION

The foundation records pledged receivables for individuals and corporations, but in review of the receivables, we noted that the Foundation does not have an aging schedule or has not set an allowance for uncollectible receivables.

CRITERIA

Good accounting controls suggest that receivables have an aging schedule and that management review the collectibility of those receivables.

CAUSE

The Foundation has not developed an aging schedule or an allowance for doubtful accounts.

EFFECT

The Foundation pledged receivables may be inaccurate.

RECOMMENDATION

The Foundation needs to develop an aging analysis for pledged receivables and based upon the review of the aging analysis, develop an allowance for doubtful accounts.

MANAGEMENT RESPONSE

During the next fiscal year, the Controller will assist staff who are responsible for the Foundation's accounting with creating a receivable aging schedule and the calculation of an allowance for uncollectible accounts.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2004**

Exit conferences were held on November 5, 2004 with the following in attendance:

University:

L. Michael Messina, Chair, Board of Regents - Budget & Finance Committee
Manny M. Aragon, President
Dr. Clarence Sanchez, Interim Vice President, Research, Planning & Development/Graduate Studies
Dr. Janice Chavez, Interim Provost
Mr. Denny Peterson, Consulting Vice President, New Mexico Tech
Ms. Darlene Tapia, Acting Chief Finance Officer
Mr. Tino Pestalozzi, Controller

Foundation:

Dr. G. Doyle Daves, Member, Foundation Board - Finance Committee
Mr. I. Ray Litherland, Member, Foundation Board - Finance Committee
Dr. Phillip Uzdawinis, Executive Director
Ms. Darlene Chavez, Finance Officer

Auditors

Scott Peck, CPA Neff + Ricci LLP

The financial statements and notes to the financial statements were prepared with the assistance of Neff + Ricci LLP.