



Financial Audit for Fiscal Year 2016

November 2016



NEW MEXICO HIGHLANDS
UNIVERSITY
STATE OF NEW MEXICO
AUDIT REPORT
JUNE 30, 2016

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO

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STATE OF NEW MEXICO

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President’s Minner Message on the audit report

Founded in 1893, New Mexico Highlands University is a multicultural university at which Hispanic, Native American, and African American students comprise approximately 71.8% of the enrollment. Forth-three percent of our students are studying at the master’s level in the Schools Education, Social Work, and Business as well as in several areas of strength in the Arts and Sciences. Highlands is widely regarded as northern New Mexico’s university; however, our students come from across the state, the country, and the world with 19 tribes, 42 states, and 36 countries represented.

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

I am rarely satisfied with performance (at least my own), but I am generally pleased with progress in the three areas of campus life, enrollment management, and advancement. All are trending in the right direction. We have a more vibrant campus life this fall thanks to student and board support of the new Campus Life fee. A few details about all this appear below:

Campus Life Initiative

We successfully launched our major act for “Art@HU”; this nearly sold out event featuring comedian Gabriel “Fluffy” Iglesias was a big win for NMHU campus community. The HU Office of Outdoor Recreation is completely functional and continues to make arrangements with businesses in the region to provide healthy and fun recreational opportunities for our students. As the weather gets colder, the Outdoor Recreation team has been working with local ski resorts. We have completed final arrangement with one resort. Therefore, HU students will take HU transportation to the ski area and will be provided with a few snowboard or ski rental and lift tickets. This is just one of the numerous successful events we have been planning.

Strategic Enrollment Management

After a national search, we have hired a new Director of Recruitment, Ms. Jessica Jaramillo. Jessica brings new energy and ideas to this important position and I have been so impressed with her enthusiasm and commitment to improving our enrollment outcomes. At this time of the year, we do track the number of admitted students and we are up approximately 5% with most of the increases at the Centers. In addition, University Relations are in final discussion about the new HU branding concept. We held a campus forum about in the fall. Those brands and messages will be folded into the 2016-2017 recruitment strategy at HU.

Advancement

We now have an annual fund officer in the Advancement Office. After a national search, we hired Ms. Anita Ramsey. Everyone knows that the very heart of any advancement operation is a robust annual campaign. I am confident that VP Law and Ms. Ramsey will engineer a good annual fund operation and continue to improve our advancement outcomes.

HU submitted an application to support an initiative titled HU-HIPs: A Comprehensive Faculty Development Program. If funded, the program would support the faculty development to promote more high-impact practice on our campus (e.g., undergraduate research, service learning, community based projects, study abroad, learning communities, etc.). We requested \$500,000 from the state, which meant we had to raise \$250,000 in private dollars. I should note our goal was much higher than any of the other comprehensive schools and even higher than most of the applications submitted by the research institutions. I knew it would be a stretch to achieve our goal, but I thought it was attainable. Twenty-eight institutions of higher education submitted applications and sixteen of them were approved to move on to the next round. Our application was approved and we immediately planned a campaign to raise the money and went to work. The campaign included a number of receptions/fundraisers in Las Vegas, Santa Fe, and Albuquerque, a staff of faculty appeal, several mailings to alums and friends, and direct appeals to selected prospective donors. We raised the \$250 K from many friends and supporters of HU and recently received the \$500,000 from the state government. As previously noted, this is an endowment--the funds will be placed in safe investments and we will spend the returns from the endowment on various HIPs activities. This fund will exist in perpetuity. This is a wonderful thing and a great achievement for HU. Bottom line---HU is at least 3/4 mil better off than it was a few short months ago. This is how institutions get stronger...by taking matters into their own hands to the maximum degree possible.

New opportunities, the growth with online programs and new areas of study such as allied health degrees and programs, offer Highlands a potential for substantial growth for program that have a natural niche.

As you will see in this report, Highlands has seen some recovery of state funding since the reductions during the recent recessionary period. Highlands was very fortunate this fall 2016 semester and experienced a slight increase in enrollment due to our reengineering of strategic enrollment management division. This is good news, compared to most institutions across the state and country experiencing double-digit declines. Our revenues outlook seems promising with increases of revenue for the summer and fall; however, we still have challenges in recover from the recession and decline in state appropriations due to dependency on oil and gas revenues.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
June 30, 2016**

BOARD OF REGENTS AND PRINCIPAL OFFICERS

Board of Regents

<i>Appointed Members:</i>	<i>Title:</i>	<i>Term Expires:</i>
Leveo V. Sanchez	Chairman	December 31, 2018
Sandra Turner	Vice-Chair	December 31, 2020
LouElla Marr-Montoya	Member	December 31, 2019
Frank Marchi	Treasure	December 31, 2016
Ryan Armijo	Student Member	December 31, 2016

Principal Administrative Officials

Dr. Sam Minner	President
Dr. Carol Linder	Interim Vice President for Academic Affairs
Kimberly Blea	Interim Dean of Students
Max Baca	Vice President for Finance & Administration

Principal Financial Officials

Dominic Chavez	Unrestricted Funds Manager
Gayle Martinez	Restricted Funds Manager

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Regents
New Mexico Highlands University
and
Mr. Timothy Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of New Mexico Highlands University (the University) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedules presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the University as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended, and the budgetary comparisons as of and for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the New Mexico Highlands University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of the New Mexico Highlands University. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. The University's financial statements are included in the financial statements of the State of New Mexico.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 and the pension schedules on pages 49 to 50 for the University's participation in the Educational Retirement Board Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

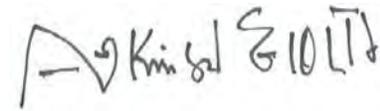
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements and the budgetary comparisons. The accompanying Schedule of Individual Deposit Accounts and Pledged Collateral and Schedule of Joint Powers Agreements, the Multi-Year Capital Projects Funded by Special and Severance Tax Capital Outlay Appropriations, and Memorandums of Understanding, as required by 2.2.2 NMAC and the Schedule of Expenditures of Federal Awards as required by 2 US Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules required by 2.2.2 NMAC and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Individual Deposit Accounts and Pledged Collateral, Schedule of Joint Powers Agreements, the Multi-Year Capital Projects Funded by Special and Severance Tax Capital Outlay Appropriations, Memorandums of Understanding, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of vendor information, required by 2.2.2 NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 21, 2016

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

Introduction

The following discussion and analysis provides an overview of the financial position and analysis of New Mexico Highlands University. It is intended to make the University financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the “University’s” position and results of operations as of and for the year ended June 30, 2016. University management has prepared the financial statements and the related note disclosures in addition to the discussion and analysis. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

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

The University has one wholly owned research corporation, **Highlands Stable Isotopes Corporation**, a New Mexico University Research Park Act not-for-profit organization. The financial information of this corporation is presented in the financial statements as a “discretely presented component unit”.

Understanding the Financial Statements

Financial highlights are presented in this discussion and analysis to help your assessment of the University’s financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements which have the following five other parts.

Report of Independent Auditors presents an unqualified opinion by our auditors (an independent certified public accounting firm (Atkinson & Co., Ltd.) on the fairness (in all material respects) of our financial statements.

Statement of Net Position presents the assets, liabilities, and net position of the University at a point in time (June 30, 2016). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University’s operations, how much the University owes to vendors, and investors, and a picture of net assets and their availability for expenditures in the University.

Statement of Revenues, Expenses, and Changes in Net Position presents the total revenues earned and expenses incurred by the University for operating, non-operating, and other related activities during a period of time (the year ended June 30, 2016). Its purpose is to assess the University’s operating results. This statement begins with a presentation of the operating revenues received by the institution. *Operating revenues* are revenues arising from exchange (earned) transactions. In a public university, such as New Mexico Highlands University, income from state government appropriations, although not earned, are heavily relied upon to pay operating expenses for almost all instruction and general programs;

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

Statement of Revenues, Expenses, and Changes in Net Position (continued)

However government accounting standards define state appropriations income as non-operating revenue, causing the presentations of a large operating loss on the first page of the Statement of Revenues, Expenses and Changes in Net Position. The operating loss is offset by *non-operating revenues* in the next section of this statement, non-operating revenues and (expenses).

Statement of Cash Flows presents cash receipts and payments of the University during a period of time (year ended June 30, 2016). Its purpose is to assess the University’s ability to generate net cash flows and meet its obligations as they come due.

Notes to the Financial Statements present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, number of undergraduates and graduates completing their degrees, and campus safety. Information about nonfinancial indicators is not included in this analysis, but can be obtained from the University’s Office of Information (Sean Weaver – University Relations Director (slweaver@nmhu.edu)).

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

Financial Highlights

During the fiscal year ended June 30, 2016, the University's net position increased by 26% from \$25.3 million to \$31.8 million and cash and cash equivalents increased by .01%, from \$9.1 million to \$9.2 million.

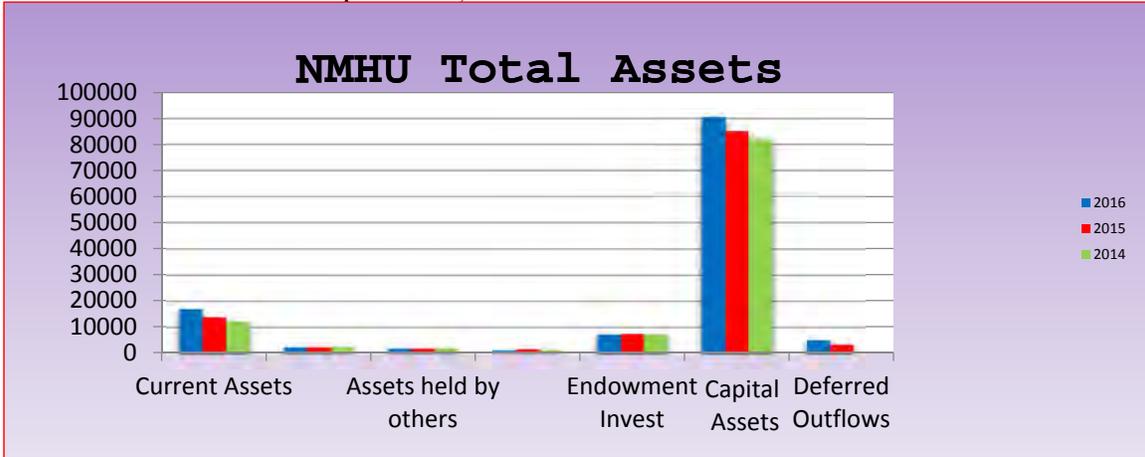
	2016	2015
CONDENSED STATEMENT OF NET POSITION		
Assets:		
Current assets	\$ 16,932	\$ 13,802
Restricted cash	2,328	2,324
Assets held by others	1,711	1,764
Due from component unit	988	1,466
Endowment investments	7,284	7,369
Capital assets, net of accum. deprec.	<u>90,536</u>	<u>84,969</u>
 Total assets	 119,779	 111,694
 Deferred outflows	 <u>4,866</u>	 <u>3,235</u>
Liabilities:		
Current liabilities	11,619	10,708
Non-current liabilities	26,807	27,822
Net pension liabilities	<u>50,076</u>	<u>46,230</u>
 Total liabilities	 88,502	 84,760
 Deferred inflows	 <u>3,098</u>	 <u>4,891</u>
Net position:		
Invested in capital assets, net of debt	62,919	56,222
Restricted for nonexpendable	8,822	9,002
Restricted for expendable	5,240	5,091
Unrestricted	<u>(43,937)</u>	<u>(45,037)</u>
 Total net position	 <u>\$ 33,044</u>	 <u>\$ 25,278</u>

Discussion of Statement of Net Position

Current assets increased 23% during the year. The ending balance of \$17 million consists primarily of cash/cash equivalents (\$9.2 million), receivables (\$7.1 million) and other (\$614 thousand). All cash and cash equivalents are essential and completely designated for ongoing operations including capital projects. The University attempts to maximize interest earnings by investing funds in the State Investment Council and with the State of New Mexico Local Government Investment Pool. The University has abided by its short term and endowment investment policies, thereby, ensuring liquidity and safety. The University has implemented procedures to collect receivables in a timely manner and is well able to meet all its current financial obligations.

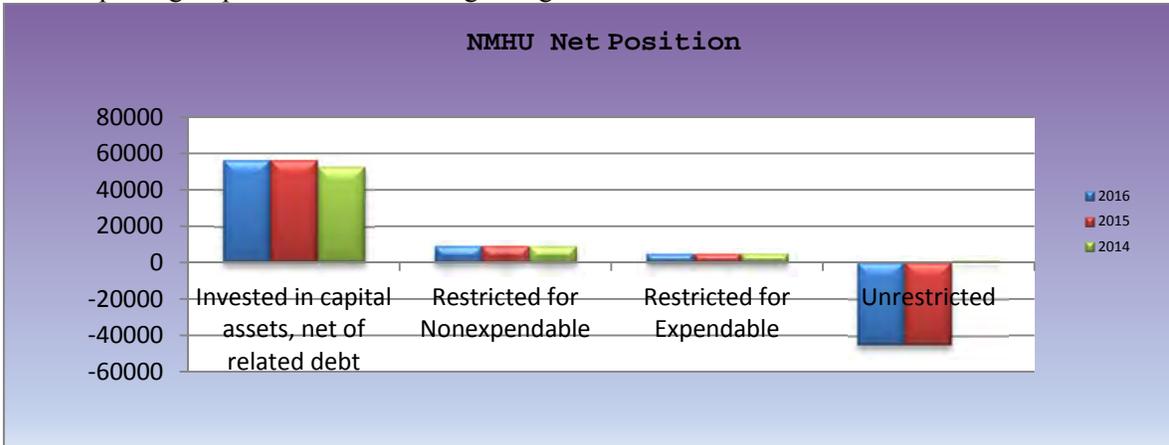
**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

The total cost of **Capital assets** is comprised of land, buildings and improvements, library books, equipment, vehicles, furniture and patents of \$183 million less accumulated depreciation of \$101 million. All capital assets, except land artwork and construction-in-progress, are being **depreciated**, meaning a percentage of the assets’ cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$82 million (\$183 million cost less \$101 million accumulated depreciation).



Total liabilities of \$89 million constitute 71% of total assets and consist primarily of payables/accrued liabilities and accrued compensated absences (\$6.6 million), bonds/notes payable (\$28.8 million), accrued interest payable of (\$207 thousand), unearned revenue (\$3.6 million). Unearned revenue represents amounts prepaid by students, auxiliary enterprises customers, grantors and contractors (or amounts received before the University met all of its requirements for income recognition) and net pension liability of (\$50 million). These amounts will be recognized as revenue in future period after all conditions have been satisfied.

Total net position increased by \$7.1 million or 29%, during the year. The ending balance of \$33 million is derived by deducting total liabilities from total assets and shows the composition of the University’s equity. Invested in Capital Assets net of debt are (\$61 million). Restricted for nonexpendable (\$8.8 million) represents the University’s endowment corpus, whereas restricted for expendable (\$5.4 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$-44 million) are available to the University for any lawful purpose under the full discretion of management. Unrestricted net assets are negative due to the reporting of pension liabilities beginning in 2015.



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

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

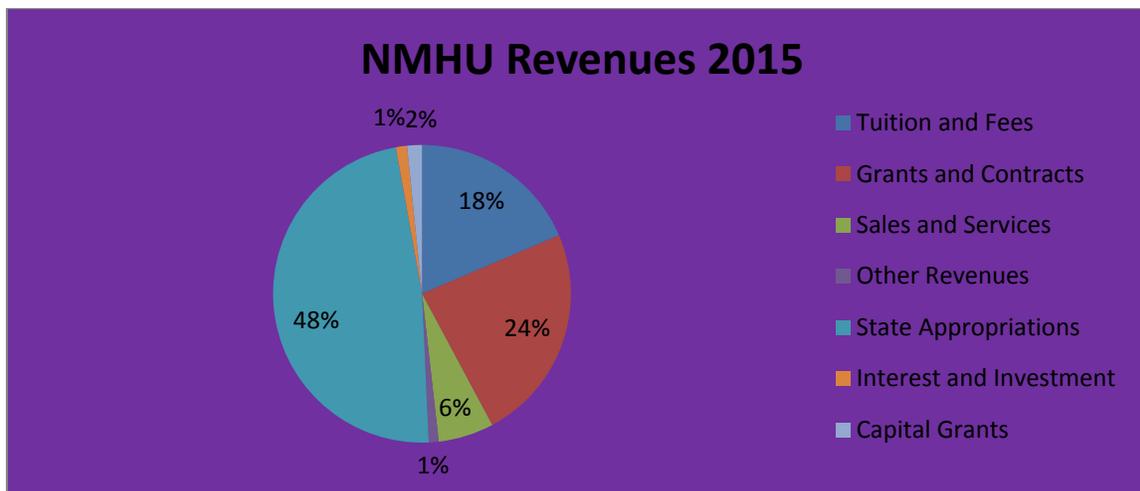
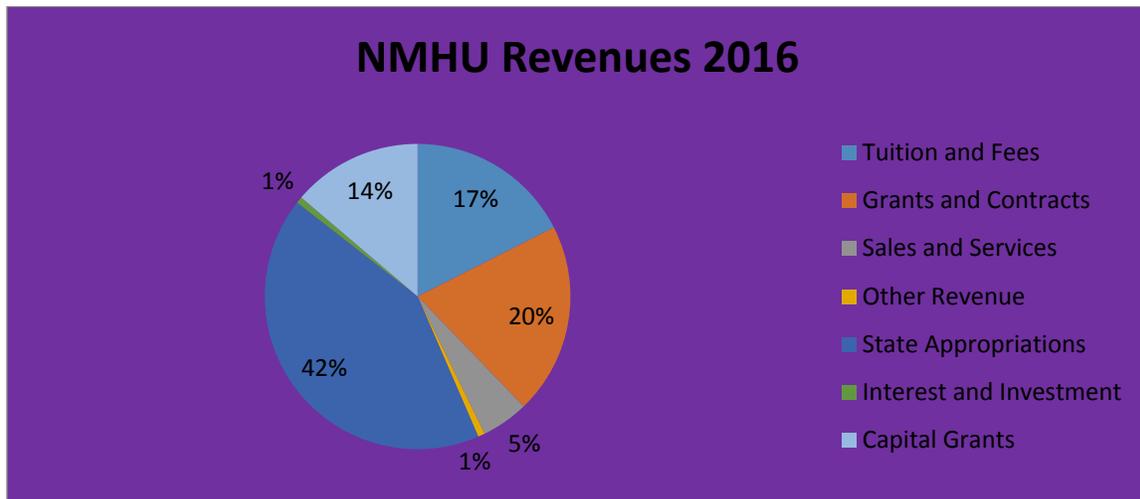
Activities for the years ended June 30, 2016 and 2015 (thousands)		
	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Tuition and fees, net	\$13,157	\$ 12,243
Grants & contracts	15,215	15,558
Sales and services / other revenue	<u>4,285</u>	<u>4,679</u>
Total operating revenues	<u>32,657</u>	<u>32,480</u>
Operating expenses:		
Instruction and general	35,142	38,881
Other operating expenses	26,938	24,388
Depreciation	<u>4,457</u>	<u>4,189</u>
Total operating expenses	<u>66,538</u>	<u>63,458</u>
Operating loss	<u>(33,881)</u>	<u>(30,978)</u>
Non-operating revenue:		
State general fund appropriations	31,562	31,565
Interest and investment income	497	791
Capital appropriations	<u>10,332</u>	<u>1,068</u>
Total Non-operating revenue:	<u>42,391</u>	<u>33,424</u>
Income/(loss) before other revenue, expenses, gains, losses	<u>8,510</u>	<u>2,445</u>
Interest on indebtedness	138	-
Other	<u>1,220</u>	<u>2,127</u>
Total Other	<u>1,358</u>	<u>2,127</u>
Increase in net position	<u>7,152</u>	<u>318</u>
Net position, beginning	25,278	67,907
Restatement	<u>615</u>	<u>(42,947)</u>
Net position, ending	<u>\$ 33,045</u>	<u>\$ 25,278</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

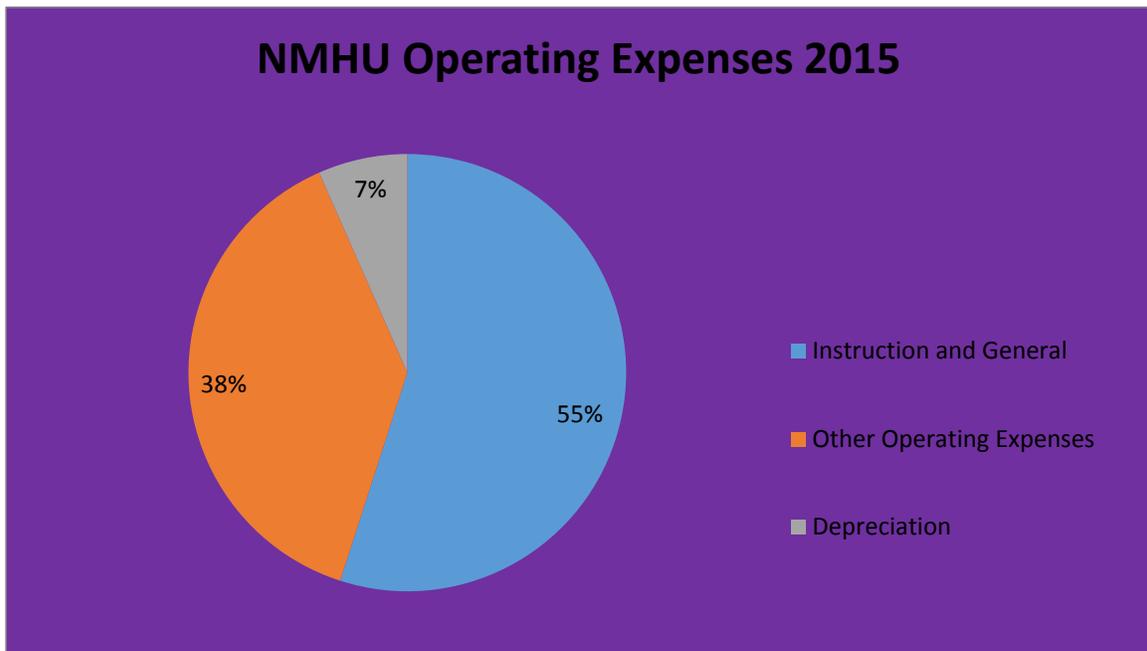
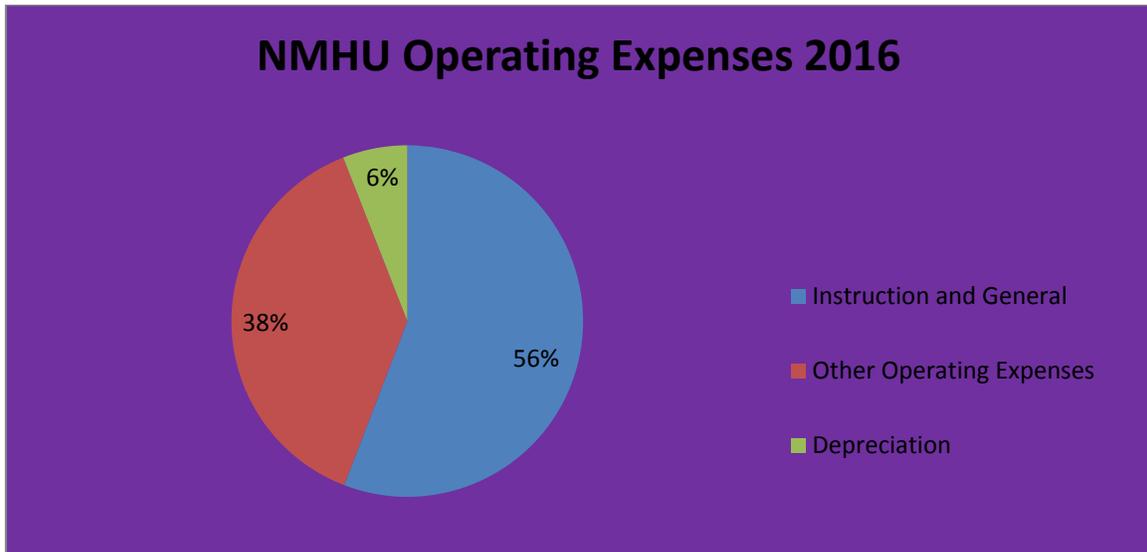
Discussion of Statement of Revenues, Expenses and Changes in Net Position

This statement shows the components that increased, in the aggregate. The University’s net position increased by \$7.1 million during the year. Operating expenses (\$66.5 million) are subtracted from operating revenues (\$32.7 million), resulting in an “operating loss” (\$33.8 million). State general fund appropriations (\$31.6 million), are not included as operating revenue; however, it is reflected as non-operating revenue, because they are provided to the University without the state receiving commensurate goods and services in exchange. State general fund appropriations are essential for the University to carry out its instructional and public service mission. **“(Loss)/Income before other revenue, expenses, gains and losses”** was a loss of (\$1.8 million). \$10.3 million in capital appropriations revenues (federal and state funds designated for construction projects) resulted in an increase in net position of \$7.1 million.

State general fund appropriations remained the same. The state appropriation for general funds for year ended June 30, 2016 was \$31.6 million as compared to state appropriation for year ended June 30, 2015 at \$31.6 million.



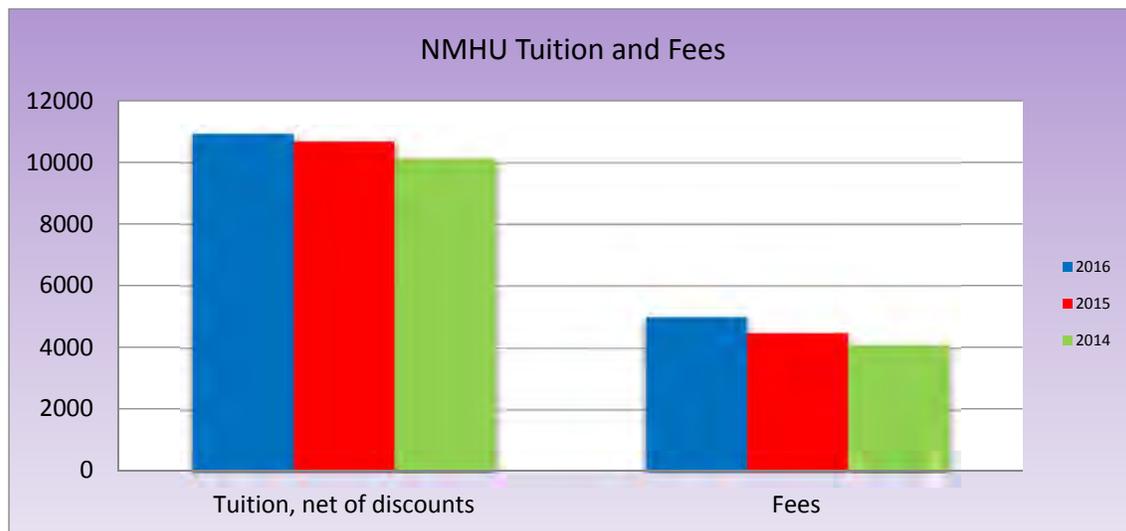
**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**



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

Analysis of Tuition and Fees Revenue (thousands)				
	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	
Tuition	\$10,936	\$10,681	255	2.4%
Fees	<u>5,011</u>	<u>4,488</u>	<u>523</u>	11.7%
Subtotal	15,947	15,169	778	5.1%
Tuition discounts/allowance	<u>(2,790)</u>	<u>(2,929)</u>	<u>139</u>	4.7%
Net	<u>\$13,157</u>	<u>\$12,240</u>	<u>917</u>	7.5%

Tuition and fees, net of discounts and allowances, increased by 5.1%; however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees, they increased by \$917 thousand, or 7.5%.



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

CONDENSED STATEMENT OF CASH FLOWS

Statement of Cash Flows for the years ended June 30, 2016 and 2015 (thousands)		
	2016	2015
Cash flows from operating activities:		
Net cash used by operating activities	\$(27,079)	\$(26,194)
Net cash provided by noncapital financing activities	31,797	31,817
Net cash flow provided by investment activities	259	539
Net cash used by capital & related financial activity	<u>(4,856)</u>	<u>(4,864)</u>
Net increase in cash and cash equivalents	120	1,299
Cash and cash equivalents, beginning of year	<u>11,199</u>	<u>7,806</u>
Cash and cash equivalents, end of year	<u>\$ 11,319</u>	<u>\$ 9,105</u>

Discussion of Statement of Cash Flows

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University had a \$120 thousand net increase during the year, resulting in an ending cash balance of \$11.3 million.

Discussion of Budget Comparisons

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

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

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

Discussion of Significant Capital Projects

As of June 30, 2016, Table listed “Multiple-Year Capital Projects Funded by General Obligation Bonds and Severance Tax Bonds Proceeds Capital Outlay Appropriations from the State of New Mexico, shows few obligations and expenditures for GOBs 14-1303 and 12-1246, as well as STB 13A-1893. The reasons are:

The State suggests that all institutions of higher education not obligate 2014 GOBs until they were sold. After the bonds were sold on March 25, 2015, the NM State Board of Finance notified all institutions that the funds were available for drawn down in April 2015. Since April 2015 (or in the course of eight months), nearly half of GOB 14-1303 has been obligated by Highlands University and is expected to be spent well before its reversion date of June 30, 2018.

Highlands University awarded a construction contract for its Trolley Renovation project (GOB 12-1246 and STB 13A-1893 on June 17, 2015). The construction contract obligated the remaining GOB 12-1246 balance and most of the STB 13A-1893 balance. To date, GOB 12-1246 is expected to be entirely drawn down by April 30, 2016, and STB 13A-1893 will be entirely drawn down by September 30, 2016, well before its reversion date.

Trolley Building Renovation

During the 2012 legislative session, the University’s Board of Regents and Administration made the renovation of the “Trolley Building” their top capital priority and Laws 2012 provided \$6,000,000 (GOB 12-1246) in the 2012 General Obligation Bonds to be presented in the November 2012’s general election for voter approval, which passed. In the summer of 2012, the Board of Regents reaffirmed the Trolley Building as its top priority and directed staff to move forward to secure additional funding during the 2013 legislative session. An additional \$2.3 million in severance tax bonds (STB 13A-1893) was approved bringing the available balance to \$8.3 million.

This historic building will become the new home for the University’s successful Media Arts program. The Las Vegas Railroad and Power Company Building, a.k.a. Trolley Building was erected in 1905. The building is listed in the State Register of Cultural Properties and the National Register of Historic Places. The Office of Cultural affairs has indicated it is pleased to support New Mexico Highlands University’s efforts to repair and reuse this structure. The idea of using a historic building to house a cutting-edge technology program is one way that Highlands honors its history and culture while immersing its students in 21st century educational opportunities.

Media Arts is one of the most successful departments at NMHU, now newly housed in the School of Business, Media & Technology. With over 100 declared majors, and minors in Marketing, Computer Science, and Fine Arts, students come to media arts with a diverse set of interests, ranging from photographic imaging to 3D video production. Student opportunities include our AmeriCorps program in Cultural Technology (with 22 students participating in our first year), an internship program with the NM Department of Cultural

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

Affairs, and the annual Seabury Fellowship program. Last year, the University enjoyed the permanent installation of the student designed exhibit “Emergence” at the NM Museum of Natural History and Science, students working at seventeen cultural institutions around New Mexico, presentations at regional and national conferences, and winning design awards in juried shows.

Rodgers Hall Renovation

The Board of Regents included the renovation of Rodgers Hall as its number 1 priority for the 2016 Legislative session. Rodgers Hall is a historic, two story building that was constructed in 1936 as the University library. It currently houses administrative functions, including the Offices of the President, the Vice President for Finance and Administration, the Vice President for Academic Affairs, the Business Office, the Graduate office, and the Human Resources Office.

The building is in need of major system upgrades. Renovation of Rodgers Hall will address ADA compliance, heating and cooling, repurposing, space utilization, electrical, plumbing, and mechanical remediation; however, no funding has yet been appropriated.

Infrastructure

Significant funding has been secured and invested in major infrastructure improvements. An additional \$14 million was requested during the 2014 Legislative session. Combined, \$6M (\$5M GOB 14-1303 and \$1M STB 15-0982) has been realized and is being used to upgrade to the University’s electrical, mechanical, fire/health/safety, and other critical systems.

Factors Impacting Future Periods

During the period from FY09-FY12, State funding for the University was reduced by 19% or \$6.5M, including reductions of 21.6% for athletics and 62.1% for Research and Public Service Projects. However, FY13 saw a 6% increase in State funding as the national and state economies improved. A modest increase, including 1.5% for compensation and 0.86% in general appropriation, was provided in FY15. Current revenue projections and meetings with key State officials suggest that State funding will continue to recover and should increase again in FY17. The Funding Formula has undergone significant change to an outcomes focus. Additional changes are anticipated in FY17.

Organizational changes on campus have occurred with the recent hiring of a new President and upcoming hire of a Vice President for Advancement (VPA). The position will incorporate responsibility for University Relations, Alumni Office and Foundation, as well as fund raising efforts. Both the University and the Foundation are positioned to support an expanded effort to secure external donations. Other organizational changes are designed to create a stronger Strategic Enrollment Management structure with a goal of improving student success and improved retention and graduation rates.

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

Request for additional Financial Information

This financial report is designed to provide the executive and legislative branches of the State of New Mexico, the public, the University’s vendors and other interested parties with a general overview of the financial position as of June 30, 2016 and the results of operations, cash flows, and budget variances for the year for New Mexico Highlands University.

If you have any questions about this report or need additional financial information contact the following:

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
STATEMENT OF NET POSITION
June 30, 2016

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
ASSETS			
Current Assets			
Cash in bank	\$ 8,975,649	\$ -	\$ 292,174
Petty cash	16,008	-	-
Total cash and cash equivalents	8,991,657		
Student accounts receivable (net of an allowance of \$5,566,120)	789,267	-	-
Grants receivable (net of an allowance of \$411,630)	1,456,844	-	-
Other receivables	4,848,799	-	20,000
Inventories	580,554	-	-
Prepaid assets	33,403	-	3,103
Short-term investments	231,070	-	-
Total current assets	16,931,594	-	315,277
Noncurrent Assets			
Restricted cash	2,327,672	-	80,234
Pledges receivable	-	-	65,000
Assets held by others	1,711,383	-	-
Due from component unit (net of an allowance of \$500,000)	988,132	-	-
Investments	7,284,626	-	7,006,789
Capital assets, net of accumulated depreciation	90,535,851	-	6,841,721
Total noncurrent assets	102,847,664	-	13,993,744
DEFERRED OUTFLOWS OF RESOURCES	4,866,268	-	-
Total assets and deferred outflows of resources	\$ 124,645,525	\$ -	\$ 14,309,021
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 5,863,084	\$ -	\$ 5,901
Accrued compensated absences	780,947	-	-
Unearned revenue	3,612,481	-	-
Accrued Interest payable	207,439	-	1,097
Bonds payable-current	1,080,000	-	-
Notes payable-current	75,000	-	942,370
Total current liabilities	11,618,951	-	949,368
Noncurrent Liabilities			
Accrued compensated absences	344,509	-	-
Due to University	-	988,132	-
Assets held for others	-	-	1,711,384
Bonds payable long-term portion	26,231,847	-	-
Notes payable-long term portion	231,250	-	-
Net Pension Liability	50,075,746	-	-
Total non-current liabilities	76,883,352	988,132	1,711,384
DEFERRED INFLOWS OF RESOURCES	3,098,524	-	-
Total liabilities and deferred inflows of resources	91,600,827	988,132	2,660,752
NET POSITION			
Invested in capital assets, net of related debt	62,919,601	-	5,899,351
Restricted for			
Nonexpendable	-	-	-
Restricted for scholarships and grants	8,821,891	-	4,937,422
Expendable			
Restricted for scholarships and grants			1,046,613
Loans	747,976	-	-
Capital projects	719,104	-	-
Debt service	3,772,907	-	-
Unrestricted	(43,936,781)	(988,132)	(235,117)
Total Net Position	33,044,698	(988,132)	11,648,269
Total Net Position, Liabilities, and Deferred Inflows of Resources	\$ 124,645,525	\$ -	\$ 14,309,021

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended June 30, 2016

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
Operating revenues			
Tuition and fees	\$ 15,946,949	\$ -	\$ -
Tuition discounts and allowances	(2,790,276)	-	-
	<u>13,156,673</u>	<u>-</u>	<u>-</u>
Federal grants and contracts	8,566,081	-	-
State and local grants and contracts	4,290,784	-	-
Private grants and contracts	2,358,407	-	-
Sales and services of auxiliary enterprises	3,743,039	-	-
Contributions	-	-	852,607
Other	542,166	5,707	418,980
Total operating revenues	<u>32,657,150</u>	<u>5,707</u>	<u>1,271,587</u>
Expenses			
Instruction and general			
Instruction	18,409,841	-	-
Academic support	2,643,625	-	-
Student services	3,472,956	-	-
Institutional support	6,237,455	-	-
Operations and maintenance support	4,378,120	-	-
	<u>35,141,997</u>	<u>-</u>	<u>-</u>
Student social/cultural development	828,570	-	-
Research	2,006,233	-	-
Public service	6,674,910	-	-
Internal Services	10,857	-	-
Student aid grants and stipends	8,192,798	-	268,811
Tuition discounts and allowances	(2,790,276)	-	-
Auxiliary enterprises	3,529,616	-	-
Athletics	2,615,443	-	-
Renewal and replacement	2,479,111	-	-
Other expenditures	-	27,780	731,944
Pension Expense	3,390,156	-	-
Depreciation	4,458,470	-	57,698
Total operating expenses	<u>66,537,885</u>	<u>27,780</u>	<u>1,058,453</u>
Operating (loss) income	<u>\$ (33,880,735)</u>	<u>\$ (22,073)</u>	<u>\$ 213,134</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION (CONTINUED)
Year Ended June 30, 2016

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
Non operating revenues (expenses)			
State appropriations	\$ 31,561,502	\$ -	\$ -
State land, permanent fund and investment income	235,979	-	-
Interest and investment income/(loss)	260,578	-	(226,753)
Debt Forgiveness - Other	-	500,000	-
Net non-operating revenues	<u>32,058,059</u>	<u>500,000</u>	<u>(226,753)</u>
(Loss) income before other revenues, expenses, gains and losses	<u>(1,822,676)</u>	<u>477,927</u>	<u>(13,619)</u>
Other revenues (expenses) and capital items			
Capital appropriations	10,332,447	-	-
Interest on indebtedness	(1,220,049)	-	-
Additions to permanent endowments	-	-	840,199
Endowment expense	(138,497)	-	-
Total other revenues (expenses) and capital items	<u>8,973,901</u>	<u>-</u>	<u>840,199</u>
Increase in Net Position	<u>7,151,225</u>	<u>477,927</u>	<u>826,580</u>
Net Position			
Net Position - beginning of year	25,277,800	(1,466,059)	10,821,689
Restatement	615,673	-	-
Net Position - beginning of year, as restated	<u>25,893,473</u>	<u>(1,466,059)</u>	<u>10,821,689</u>
Net Position, end of year	<u>\$ 33,044,698</u>	<u>\$ (988,132)</u>	<u>\$ 11,648,269</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
Cash Flows From Operating Activities			
Tuition and fees	\$ 13,281,517	-	-
Grants and contracts	15,591,096	-	-
Sales and services	3,743,039	-	-
Other operating receipts	793,863	5,707	804,620
Payments to employees for salaries and benefits	(34,542,123)	-	-
Payments to suppliers	(25,946,707)	(27,780)	(230,728)
Payments to others	-	-	(610,433)
Net cash used by operating activities	<u>(27,079,315)</u>	<u>(22,073)</u>	<u>(36,541)</u>
Cash Flows From Noncapital Financing Activities			
State appropriations	31,561,502	-	-
Land and permanent fund	235,979	-	-
Additions to endowments	-	-	840,199
Advances from primary institution	-	22,073	-
Net cash provided by noncapital financing activities	<u>31,797,481</u>	<u>22,073</u>	<u>840,199</u>
Cash Flows From Investment Activities			
Investment Income	397,100	-	-
Purchases of investments	-	-	(601,426)
Endowment expense	(138,497)	-	-
Net cash provided (used) by investment activities	<u>258,603</u>	<u>-</u>	<u>(601,426)</u>
Cash Flows From Capital and Related Financing Activities			
State Appropriations for Capital Projects	6,929,162	-	-
Cash paid for capital assets	(9,409,978)	-	-
Proceeds from note payable	-	-	22,718
Repayments of bonds and notes payable	(1,130,000)	-	(166,556)
Interest payment on bonds	(1,245,367)	-	-
Net cash used by capital and related financing activities	<u>(4,856,183)</u>	<u>-</u>	<u>(143,838)</u>
Net increase in cash and cash equivalents	120,586	-	58,394
Cash and cash equivalents, beginning of year	11,198,743	-	233,780
Cash and cash equivalents, end of year	<u>\$ 11,319,329</u>	<u>\$ -</u>	<u>\$ 292,174</u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH USED BY OPERATING ACTIVITIES			
Operating (loss) income	\$ (33,880,735)	477,927	213,134
Adjustments to reconcile operating (loss) income to net cash used by operating activities			
Depreciation expense	4,458,470	-	57,698
Current year deferred pension contributions and adjustments	(2,967,502)	-	-
Pension Expense	3,390,156	-	-
Bad debt expense	500,000	-	-
Investment fees	-	-	39,286
Donated artwork	-	-	(252,850)
Changes in assets and liabilities			
Receivables	528,253	-	(40,000)
Inventories	(138,187)	-	-
Other assets	885	-	-
Due from component unit	(22,073)	-	-
Accounts payable and accrued expenses	1,181,138	-	(1,203)
Assets held for others	-	-	(52,606)
Deferred revenue	(253,819)	-	-
Due to primary institution	-	(477,927)	-
Compensated absences	124,099	-	-
Net cash used by operating activities	<u>\$ (27,079,315)</u>	<u>\$ -</u>	<u>\$ (36,541)</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creation and Purposed Entity. New Mexico Highlands University (University) formerly known as New Mexico Normal University, was established in 1893 when New Mexico was still a territory. The institution began operations in October 1898 and in 1917, the institution became a four-year teacher training college awarding the Bachelor of Arts degree. Graduate work in certain departments, leading to the degrees of Master of Arts and Master of Science, were added in the late 1920's and the mid-1950's, respectively. In 1941, the New Mexico Legislature changed the name of the institution to New Mexico Highlands University. The University's campus, including its golf course, encompasses approximately 176 acres in Las Vegas, in the northeastern portion of New Mexico.

Governance. The University is controlled and managed by a Board of Regents consisting of five members appointed by the Governor, with the advice and consent of the New Mexico Senate, for a term of six years, except for the Student Representative, who serves for a term of two years. Not more than three of the Regents shall belong to the same political party at the time of their appointment. Four of the five members of the Board must be qualified electors of the State, and the fifth member shall be a member of the student body of the institution. The Board of Regents constitutes a body politic and corporate, and has the power to sue and be sued, to contract and be contracted with, and the title to all property belonging to the University is vested in this corporate body and successors.

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

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

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

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

- **Highlands Stable Isotopes (HSI)**

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

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

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

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

Procedures for Approval of Operating Budgets

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

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for expenditures to the University in subsequent years pursuant to the General Appropriation Act of 2004, Section 4, J (Higher Education). The University had an instance of budgetary noncompliance. Please see Finding 2016-003.

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

The Accompanying Schedules of Budget and Actual, for year ended June 30, 2016, (the "schedule") is prepared on the basis of accounting prescribed by the State of New Mexico, HED. HED requires budgets for combined revenues and expenditures, current unrestricted instruction and general, and current restricted instruction and general on a basis consistent with the financial reporting model used by the University prior to implementation of GASB Statements No. 34 and 35. Additions to capital assets and debt principal retirements are reported as expenditures on the budget basis, but not on the basis required

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

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

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

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

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

Income Taxes. The University, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the University are deductible by donors as provided under Section 170 of the Internal Revenue Code.

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

Unearned Revenue. Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May 2016 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2016. Unearned revenues also include amounts received from grant and contract sponsors that have not been earned.

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for infrastructure, 10 years for library books, 5 to 12 years for furniture, fixtures and equipment and 5 years for autos. At July 1, 2012, the University revised its policy for depreciating buildings by increasing the estimated useful life from 25 years to 50 years.

Compensated Absences. The University accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. The current portion of the accumulated vacation leave is based on the previous year's data. Accrued vacation up to 240 hours is recorded at 100% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA).

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

Net Position. The University's net position is classified as follows:

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

Restricted Net Position - Nonexpendable. Nonexpendable restricted net position 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.

The amount of net position restricted by enabling legislation is \$0 at June 30, 2016.

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

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

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

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
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June 30, 2016

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

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

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

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

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

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

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

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

NOTE 2. CASH AND CASH EQUIVALENTS

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

	New Mexico Highlands University	Component Unit NMHU Foundation
Petty Cash	\$ 16,008	\$ -
Bank Deposits	8,975,649	292,174
Cash and Equivalents	<u>8,991,657</u>	<u>292,174</u>
State Treasurer Local Government Investment Pool	<u>231,070</u>	<u>-</u>
	<u>\$ 9,222,727</u>	<u>\$ 292,174</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Section 6-10-17, New Mexico Statutes requires that all depositories of the University provide collateral equal to at least one-half of the amount of uninsured public monies on deposit. Collateral requirements may be greater depending on the specific bank holding public funds. Per State Auditor's Rule 2.2.2.10 N. Public Monies: Cash on deposit with the State Treasurer does not require disclosure of specific pledged collateral for amounts held by the State Treasurer.

As of June 30, 2016, \$16,365 of the University's bank balance of \$9,222,727 was exposed to custodial credit risk.

Credit Risk. The University has money market funds and investments in the State Treasurer Local Government Investment Pool that are considered cash. As of June 30, 2016, the University's money market accounts are backed by commercial paper and other debt instruments that are rated AAA by Moody's Investor Service.

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

State Treasurer Local Government Investment Pool (LGIP). As of June 30, 2016, the State Treasurer Investment Pool was paying the University .3906 percent per annum. The interest rate is determined by the State Treasurer.

The University has early implemented GASB 79 to conform to the adoption of GASB 79 by the State Treasurer for 2016. This election allows the LGIP and Pool participants to measure its investments at amortized cost. The short term investments held by the University in the LGIP are reported at amortized cost which approximates fair value.

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

The pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the perspective amounts deposited in the fund and the length of time the amounts fund were invested; and participation is voluntary. The rating of the investments is AAAM by Standard & Poor's and the weighted average maturity is 44 days at reset WAM(R) and 77 days at final WAM(F).

NOTE 3. GRANTS RECEIVABLE

As of June 30, 2016, grants receivables consisted of the following:

Federal grants	\$ 446,954
State grants	513,204
Private grants	494,489
Other grants	<u>413,827</u>
Total grants receivables	1,868,474
Allowance for uncollectible grant receivable	<u>(411,630)</u>
 Grants receivable, net	 <u>\$ 1,456,844</u>

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 4. OTHER RECEIVABLES

Other Receivables as of June 30, 2016, consisted of the following:

	<u>New Mexico Highlands University</u>	<u>NMHU Foundation</u>
Perkins loan receivable	\$ 659,421	\$ -
Due from State of New Mexico	3,602,705	-
Other	<u>586,672</u>	<u>20,000</u>
Other Receivables	<u>\$ 4,848,799</u>	<u>\$ 20,000</u>

The Due from State of New Mexico consists of amount due for capital projects as of June 30, 2016.

NOTE 5. INVENTORIES

Inventories as of June 30, 2016, consisted of the following:

Facilities services	\$ 222,898
Athletics	331,684
Golf course	<u>25,972</u>
Total inventory	<u>\$ 580,554</u>

NOTE 6. INVESTMENTS

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

The Foundation has no limitations on the types of investments or deposits it can make within the scope of its investment policy except alternative investments are not allowed.

At June 30, 2016, investments of the University and its components units are summarized as follows:

	<u>New Mexico Highlands University</u>	<u>Component Unit New Mexico Highlands Foundation</u>
State Land Grant Permanent Fund	\$ 3,631,167	\$ -
Cash & money market funds	-	1,362,565
Mutual funds	-	209,552
Common stocks	2,579,286	3,262,573
U.S. obligations	-	473,859
U.S. agency obligations	-	184,297
U.S. corporate bonds	1,074,173	713,943
Certificate of Deposit	<u>-</u>	<u>800,000</u>
Total investments	<u>\$ 7,284,626</u>	<u>\$ 7,006,789</u>

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 6. INVESTMENTS (CONTINUED)

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

Credit Risk. The University has an investment policy that requires an allocation percentage of a maximum of 75% of the funds will be invested and a minimum of 35% in both equities and fixed income securities. University bond holdings are held by the State Investment Council (SIC). Please refer to the SIC's separately issued financial statements for complete disclosures on credit risk.

Foundation Interest Risk. As of June 30, 2016, the Foundation had the following investments subject to interest rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
Cash & Money Market Funds	\$1,362,565	
Certificates of deposit	800,000	
Mutual Funds	209,552	
Common Stocks	3,262,573	
U.S. obligations	658,156	2.57
U.S. corporate bonds	<u>713,943</u>	<u>5.66</u>
	<u>\$7,006,789</u>	
Portfolio weighted average maturity		<u>8.23</u>

The Foundation does not have a cash collateral policy over its deposits. As of June 30, 2016, \$42,174 of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

Foundation Credit Risk. As of June 30, 2016, the Foundation had the following investments subject to investment rate risk:

U.S. Corporate Bonds:	
<u>Rating</u>	<u>Fair Value</u>
AA+ -B	<u>\$713,943</u>
U.S. Agency Obligations:	
<u>Rating</u>	<u>Fair Value</u>
AA+	<u>\$184,297</u>

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

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase in temporarily restricted net assets until the amount is expended in accordance with donor specifications and in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Chapter 46, Article 9A, NMSA 1978). During the current year, donor-restricted endowments had net depreciation of \$194,314 and investment income of \$96,258.

Both the University and the Foundation hold nonexpendable endowments that generate income available for authorization for expenditure by a governing board. The amount available at June 30, 2016 is \$1,046,613 at the Foundation.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 7. FAIR VALUE OF INVESTMENTS

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

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at December 31, 2016.

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

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

The State Land Grant Permanent Fund is valued at the amounts reported to the University by the State Investment Council and is under Level 3 of the Hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 7. FAIR VALUE OF INVESTMENTS – CONTINUED

The following table presents the fair value measurements of the assets and liabilities at June 30, 2016:

Foundation	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
At June 30, 2016				
Common stock	\$ 3,262,573	\$ 3,262,573	\$ -	\$ -
Cash and money market funds	1,362,565	1,362,565	-	-
Certificates of deposit	800,000	800,000	-	-
U.S. corporate bonds	713,943	713,943	-	-
U.S. obligations	658,156	658,156	-	-
Mutual funds	209,552	209,552	-	-
	<u>\$ 7,006,789</u>	<u>\$ 7,006,789</u>	<u>\$ -</u>	<u>\$ -</u>

University	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
At June 30, 2016				
Common stock	\$ 2,579,286	\$ 2,579,286	\$ -	\$ -
U.S. corporate bonds	1,074,173	1,074,173	-	-
State Land Grant Permanent Fund	3,631,167	-	-	3,631,167
	<u>\$ 7,284,626</u>	<u>\$ 3,653,459</u>	<u>\$ -</u>	<u>\$ 3,631,167</u>

NOTE 8. ASSETS HELD BY OTHERS

As of June 30, 2016, assets held by others and restricted cash consist of the following:

	<u>University</u>	<u>Foundation</u>
Foundation Endowment	\$ 1,711,384	\$ -
Debt service reserves held in restricted cash	<u>2,327,672</u>	<u>80,234</u>
	<u>\$ 4,039,056</u>	<u>\$ 80,234</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 9. CAPITAL ASSETS

The following schedule presents the changes in capital assets and accumulated depreciation by major asset category for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 2,793,955	222,136	-	\$ 3,016,091
Artwork	687,323	-	-	687,323
Patents	73,686	-	-	73,686
Construction-in-progress	608,460	5,123,101	-	5,731,561
Total capital assets not being depreciated	\$4,163,424	5,345,237	-	\$9,508,661
Other capital assets				
Infrastructure	\$28,914,573	3,454,165	-	\$32,368,738
Buildings	126,709,411	-	-	126,709,411
Furniture, fixtures and equipment	15,096,459	251,205	1,565,589	13,782,075
Library materials	9,163,567	359,370	83,851	9,439,086
Total other capital assets	\$ 179,884,010	4,064,740	1,649,440	\$ 182,299,311
Less Accumulated depreciation for				
Infrastructure	\$ (14,510,252)	\$(1,967,206)	-	\$ (16,477,458)
Buildings	(62,597,801)	(1,686,423)	-	(64,284,224)
Furniture, fixtures and equipment	(13,826,814)	(426,497)	(1,565,589)	(12,687,722)
Library materials	(7,528,224)	(378,345)	(83,851)	(7,822,718)
Total accumulated depreciation	(98,463,091)	(4,458,470)	(1,649,440)	(101,272,121)
Other capital assets, net	\$ 81,420,919	\$(393,729)	-	\$ 81,027,190
Capital assets summary:				
Capital assets not being depreciated	\$4,163,424	5,345,289	-	\$9,508,713
Other capital assets	179,884,010	4,064,740	1,649,440	182,299,311
Total cost of capital assets	184,047,434	9,410,029	1,649,440	191,808,024
Less accumulated depreciation	(98,463,091)	(4,458,470)	(1,649,440)	(101,272,121)
Capital assets, net	\$ 85,584,343	(4,951,560)	-	\$ 90,535,851

Depreciation expense for the year totaled \$4,458,470.

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 9. CAPITAL ASSETS (CONTINUED)

New Mexico Highlands University Foundation, Inc.

	Balance June 30, 2015		Additions		Retirements		Balance June 30, 2016
Capital assets not being depreciated							
Land	\$ 2,409,841	\$	-	\$	-		\$ 2,409,841
Artwork	2,967,365		377,240		(124,390)		3,220,215
Total Capital Assets not depreciated	\$ 5,377,206	\$	377,240	\$	(124,390)		\$ 5,630,056
Other capital assets							
Buildings held for lease to University	2,250,237		-		-		2,250,237
Less accumulated depreciation for Buildings	\$ (980,874)	\$	(57,698)	\$	-		(1,038,572)
Other capital assets, net	\$ 6,646,569	\$	319,542	\$	(124,390)		\$ 6,841,721
Capital assets summary							
Capital assets not being Depreciated	\$ 5,377,206	\$	377,240	\$	(124,390)		\$ 5,630,056
Other capital assets, at cost	2,250,237		-		-		2,250,237
Total cost of capital assets	7,627,443		377,240		(124,390)		7,880,293
Accumulated depreciation	(980,874)		(57,698)		-		(1,038,572)
Capital assets, net	\$ 6,646,569	\$	319,542	\$	(124,390)		\$ 6,841,721

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

NOTE 10. ACCOUNTS PAYABLE/ACCRUED AND OTHER LIABILITIES

The \$5,863,084 amount consists of \$1,869,091 of accounts payables and other liabilities, and \$3,398,028 of accrued payroll tax liabilities.

Discretely Presented Component Unit - Foundation

Foundation's \$5,901 of accounts payables, and \$1,097 of accrued interest liabilities.

Discretely Presented Component Unit – Highlands Stable Isotopes

\$988,132 of accounts payable liabilities.

NOTE 11. LONG-TERM LIABILITIES

Long-term liability activity for the University for the Year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Additions	Deletion	Balance June 30, 2016	Amount Due Within One Year
A'viands note payable	\$ 381,250	\$ _____	\$ (75,000)	\$306,250	\$ 75,000

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 11. LONG-TERM LIABILITIES (CONTINUED)

Bonds payable	<u>\$28,365,000</u>	\$ _____	<u>\$(1,055,000)</u>	<u>\$27,310,000</u>	<u>\$1,080,000</u>
Accrued Compensated balances	<u>\$ 1,001,357</u>	<u>\$ 1,125,456</u>	<u>\$(1,001,357)</u>	<u>\$ 1,125,456</u>	<u>\$780,947</u>

New Mexico Highlands University Foundation, Inc.

Long-term liability activity for the year ended June 30, 2016, is as follows:

	Balance June 30, <u>2015</u>	<u>Additions</u>	<u>Deletion</u>	Balance June 30, 2016	Amount Due Within <u>One Year</u>
Notes payable	<u>\$1,086,208</u>	<u>\$ 22,719</u>	<u>\$(166,557)</u>	<u>\$942,370</u>	<u>\$153,739</u>

NOTE 12. BONDS PAYABLE AND NOTES PAYABLE

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

Systems refunding revenue bonds services, 2012, issued November 1, 2012, with interest ranging from .93% to 4.26% - final maturity 2034.	\$ 15,800,000
Systems refunding revenue bonds services, 2009A issued October 15, 2009, with interest ranging from 3.00% to 4.50% - final maturity 2021.	2,280,000
Systems refunding revenue bonds services, 2009B, issued October 15, 2009, with interest ranging from 5.32% to 6.07% - final maturity 2035.	<u>9,230,000</u>
Total bonds payable	27,310,000
Less amounts due within one year	<u>(1,080,000)</u>
Long term bonds payable	<u>\$ 26,230,000</u>

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,080,000	\$ 1,220,792	\$ 2,300,792
2018	1,105,000	1,193,487	2,298,487
2019	1,140,000	1,159,404	2,299,404
2020	1,180,000	1,122,229	2,302,229
2021-2025	6,555,000	4,894,655	11,449,655
2026-2030	7,885,000	3,291,186	11,176,186
2031-2035	<u>8,365,000</u>	<u>1,207,379</u>	<u>9,572,379</u>
Total	<u>\$27,310,000</u>	<u>\$14,089,132</u>	<u>\$41,339,132</u>

A viands Food & Services note is payable at \$75,000 per year over the next 4 years. The interest rate on the note is 0%.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 12. BONDS PAYABLE AND NOTES PAYABLE (CONTINUED)

The Foundation has a 4% note payable to a bank related to its Rio Rancho land and building. The Foundation has the ability to make additional draws on the loan to upgrade and remodel the building. During 2016 an additional \$22,719 was drawn on the loan for this purpose. The loan is due in monthly installments of \$17,346 through October 2021, at which time the remaining balance is due. The terms of the note include a due on demand clause, and so the balance due on the note is included in current liabilities. The building is pledged as collateral on the loan.

Note payable	<u>Amount</u>
The note is secured with building and land current portion	<u>\$ 942,370</u>

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

<u>Year</u>	<u>Amount</u>
2017	\$ 153,739
2018	163,604
2019	174,101
2020	185,273
2021	197,161
Thereafter	<u>68,491</u>
	<u>\$ 942,370</u>

NOTE 13. UNEARNED REVENUE

As of June 30, 2016, unearned revenue consisted of the following:

Grants and Contract	\$1,266,111
Tuition	1,474,132
Housing/meal Plan	92,435
Other	<u>779,802</u>
Total	<u>\$3,612,481</u>

NOTE 14. RISK MANAGEMENT

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

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

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STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 14. RISK MANAGEMENT (CONTINUED)

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

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

NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD

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

Retirement Plan. Employees of the University participate in a defined benefit contributory retirement plan through the Educational Retirement Act (ERA) of the State of New Mexico; certain faculty may opt into an alternate retirement plan invested in tax-sheltered annuities. ERA is a cost sharing multiple employer public employee retirement system.

Information pertaining to the actuarially computed present value of vested accumulated plan benefits and non-vested accumulated plan benefits, the plan’s net assets available for benefits and the assumed rate of return used in computing the present value, and ten-year historical trend information presenting ERA’s progress in accumulating sufficient assets to pay benefits when due is not available as it relates to individual government agencies participating in the plan.

Actuarial pension data for the State of New Mexico, as employer, is provided at the statewide level in a separately issued audit report of the ERA.

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

Prior to July 1, 2010:

A member is eligible to retire when:

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

NEW MEXICO HIGHLANDS UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

Beginning on or after July 1, 2010:

A Member is eligible to retire when:

1. The member's age and earned service credit add up to the sum of 80 or more, or
2. The member is age 67 or more with at least five years of earned service credit, or
3. The member has earned service credit at allowed service credit rates totaling 30 or more years.

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

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

Funding Policy. Effective July 1, 2013, members with annual wages of \$20,000 or less are required to contribute 7.90% of their gross wages and members with annual wages over \$20,000 are required to contribute 10.70%. The University is required to contribute 13.90% of reportable compensation for members with annual wages of \$20,000 or less and 13.90% for members whose annual wages are above \$20,000. Effective July 1, 2013, retirees who are participating in the return to Work Programs will make non-refundable employee contributions to the NMERB fund and will not earn any additional service credit. The RTW members with annual wages of \$20,000 or less are required to contribute 7.90% of their gross wages and members with annual wages over \$20,000 are required to contribute 10.70%. The University is required to contribute 13.90% of gross wages for members participating in the Return-To-Work Program. The University is also required to contribute 13.90% of gross wages for PERA Retiree members. PERA Retirees are excluded from contributing. The contribution requirements of plan members and the University are established in State statute under Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The University's contributions to ERB for the years ending June 30, 2016, June 30, 2015 and June 30, 2014, were \$2,967,502, \$2,965,121, and \$2,849,006, and, respectively, equal to the amount of the required contribution for each fiscal year.

NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are reported by ERB, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General Information about the Pension Plan

Plan description. ERB was created by the state's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost sharing, multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

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

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010.

The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date is as follows: the member's age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with

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NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Contributions. The contribution requirements of defined benefit plan members and New Mexico Highlands University are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2015 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions to the pension plan from New Mexico Highlands University were \$3,054,737 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015. At June 30, 2016, New Mexico Highlands University reported a liability of \$50,075,746 for its proportionate share of the net pension liability. New Mexico Highlands University proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2015. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, New Mexico Highlands University's proportion was .77310 percent, which was a decrease of .0037 percent from its proportion measured as of June 30, 2014. For the year ended June 30, 2016, New Mexico Highlands University recognized pension expense of \$3,390,156 at June 30, 2015, New Mexico Highlands University reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

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NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 948,961
Changes in assumptions	\$ 1,722,372	
Net difference between projected and actual earnings on pension plan investments		369,853
Changes in proportion		1,779,771
Changes in proportion and differences between New Mexico Highlands University contributions and proportionate share of contributions	176,394	
New Mexico Highlands University contributions subsequent to the measurement date	<u>2,967,502</u>	
Total	<u>\$ 4,866,268</u>	<u>\$ 3,098,524</u>

\$2,967,502 reported as deferred outflows of resources related to pensions resulting from New Mexico Highlands University contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (808,418)
2018	(609,918)
2019	(476,926)
2020	695,504

Actuarial assumptions. As described above, the total pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.7% during the fiscal year ending June 30, 2015 thereafter,
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014.

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NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

The Board of Trustees approved the following economic and demographic assumptions used in the fiscal year 2015 actuarial calculation of the total pension liability on June 12, 2015:

- Lower wage inflation from 4.25% to 3.75%
- Update the mortality tables to incorporate generational improvements
- Update demographic assumptions to use currently published tables, which may result in minor calculation changes
- Maintain in current 3.00% inflation assumption
- Retain net 4.75% real return assumption
- Retain 7.75% nominal return assumption
- No change to COLA assumption of 2.00% per year
- Maintain current payroll growth assumption of 3.50%
- Maintain experience-based rates for members who joined NMERB by June 30, 2010
- Remove population growth assumption for projections
- Lower population growth from .50% to zero (no impact on valuation results)

The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

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NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2016 and 2015 for 30-year return assumptions are summarized in the following table:

Asset Class	2016 Long-Term Expected Real Rate of Return	2015 Long-Term Expected Real Rate of Return
Cash	3.25%	3.00%
Treasuries	3.50%	3.25%
IG Corp Credit	4.75%	5.00%
MBS	3.75%	3.50%
Core Bonds	3.98%	3.89%
TIPS	4.00%	4.00%
High Yield Bonds	5.75%	5.75%
Bank Loans	6.00%	6.00%
Global Bonds (Unhedged)	2.25%	2.75%
Global Bonds (Hedged)	2.41%	2.87%
EMD External	6.00%	6.00%
EMD Local Currency	6.75%	6.50%
Large Cap Equities	7.50%	7.50%
Small/Mid Cap	7.75%	7.75%
International Equities (Unhedged)	8.00%	8.00%
International Equities (Hedged)	8.47%	8.39%
Emerging International Equities	9.25%	9.50%
Private Equity	9.50%	9.50%
Private Debt	8.00%	8.00%
Private Real Assets	7.75%	7.75%
Real Estate	6.50%	6.50%
Commodities	5.75%	5.50%
Hedge Funds	6.75%	6.50%

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2014 and June 30, 2013. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

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NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sensitivity of New Mexico Highlands University's *proportionate share of the net pension liability to changes in the discount rate*. The following table presents New Mexico Highlands University's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what New Mexico Highlands University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
New Mexico Highlands University's Proportionate share of the net pension Liability	<u>\$67,380,261</u>	<u>\$50,075,746</u>	<u>\$35,538,151</u>

Pension plan fiduciary net position. Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2016 and 2015 which are publicly available at www.nmerb.org.

Payables to the pension plan. Employers contribution due at June 30, 2015 of \$322,465.

Schedules of Required Supplementary Information
SCHEDULE OF NEW MEXICO HIGHLANDS UNIVERSITY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY Educational Retirement Board (ERB) Plan
Last 10 Fiscal Years*

	<u>2016</u>
New Mexico Highlands University's proportion of the net pension liability (asset)	.77310%
New Mexico Highlands University's proportionate share of the net pension liability (asset)	\$50,075,746
New Mexico Highlands University's covered-employee payroll	\$21,108,107
New Mexico Highlands University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	237%
Plan fiduciary net position as a percentage of the total pension liability	63.97%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, New Mexico Highlands University's will present information for those years for which information is available.

**NEW MEXICO HIGHLANDS UNIVERSITY
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June 30, 2016**

NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**SCHEDULE OF NEW MEXICO HIGHLANDS UNIVERSITY'S CONTRIBUTIONS
Educational Retirement Board (ERB) Pension Plan Last 10 Fiscal Years***

	<u>2015</u>
Contractually required contribution	\$ 3,486,299
Contributions in relation to the contractually required contribution	\$ 3,054,737
Contribution deficiency (excess)	<u>431,552</u>
New Mexico Highlands University's covered-employee payroll	\$21,108,107
Contributions as a percentage of covered-employee payroll	14.47%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, New Mexico Highlands University will present information for those years for which information is available.

Notes to Required Supplementary Information For the Year Ended June 30, 2016

Changes of benefit terms. The COLA and retirement eligibility benefits changes in recent years are described in the ***Benefits Provided*** subsection of the financial statement note disclosure ***General Information on the Pension Plan***.

Changes of assumptions.

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on April 26, 2013, ERB implemented the following changes in assumptions for fiscal years 2014 and 2013.

1. Fiscal year 2014 and 2013 valuation assumptions that changed based on this study:
 - a. Lower wage inflation from 4.75% to 4.25%
 - b. Lower payroll growth from 3.75% to 3.50%
 - c. Minor changes to demographic assumptions
 - d. Population growth per year from 0.75% to 0.50%
2. Assumptions that were not changed:
 - a. Investment return will remain at 7.75%
 - b. Inflation will remain at 3.00%

See also the ***Actuarial Assumptions*** subsection of the financial statement note disclosure ***General Information on the Pension Plan***.

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NOTE 17. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislatures who served at least two years; and 4) former governing authority members who served at least four years.

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 2% of each participating employee's annual salary; each participating employee is required to contribute 1% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the NMRHCA base on one of two formulas at agreed – upon intervals.

The NMRHCA plan is finance on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the NMRHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The University's contributions to the NMRHCA for years ending June 30, 2016, June 30, 2015, and June 30, 2014 were \$470,651, \$477,335, and \$476,313, respectively which equals the required contributions for each year.

NOTE 18. ALTERNATIVE RETIREMENT PLAN

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan (ARP). With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 10.90% to the carrier selected by the employee. The employee contributes 10.70% of his/her gross salary to the carrier they select. Contributions by the University totaled \$91,654 to the NMEIRA for the alternative retirement plan and \$362,906 to the various carriers for the year ended June 30, 2016. Employees contributed \$356,247 to the various carriers under the alternative plan during the year ended June 30, 2016.

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NOTE 19. 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, 2016, was \$180,500 which has been charged to expenditures.

NOTE 20. LEASES

At June 30, 2016, the University had various operating lease arrangements summarized as follows:

Operating Leases. Rent expense for operating leases amounted to \$870,529 for the year ended June 30, 2016. Included in current year rent expense is a lease for a building owned by the Foundation in the amount of \$372,384. The lease agreement expires during the year ended June 30, 2017. There is also a second lease for a parking lot owned by the Foundation in the amount of \$37,200. The leases with the Foundation has been included in the minimum lease payments below.

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2016:

Year Ending June 30, 2016	Operating <u>Leases</u>
2017	\$ 687,618
2018	302,030
2019	305,061
2020	<u>183,360</u>
	<u>\$ 1,478,069</u>

NOTE 21. COMMITMENTS AND CONTINGENCIES

Commitments. At June 30, 2016, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	\$ 123,886
Plant Funds	\$ 1,875,469

Contingencies. In February 2012, the University terminated its contract with Makwa Builders LLC ("Makwa") for construction of the client's Student Union Building (the Project), under a provision known as "termination for convenience." Under the "termination for convenience" provision, the University is responsible for compensating Makwa for work completed but not paid for through the date of termination, for reasonable overhead and profit, and for cost related to demobilization from the Project. On April 30, 2012, Makwa submitted a "termination for convenience statement for payment" which was in excess of what was due to Makwa. The University responded to Makwa's request for payment on August 10, 2012 stating that no money was owed to Makwa. On August 31, 2012, Makwa submitted a "Notice of Claim" under the contract for payments owed in an amount exceeding \$3 million, and for tort claims related to the University's alleged defamation of Makwa. On September 10, 2012, the University rejected Makwa's claim for payment and proceeded to the next step outlined in the contract for "dispute resolution."

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NOTE 21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

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

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

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

Legal counsel advised that all appeals have been briefed at October 2016 and such appeals will take time to process. It is not possible to determine the outcome of this matter at the date of these financial statements.

No amounts have been recorded in the June 30, 2016, financial statements for this potential contingency.

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

NOTE 22. RESEARCH COMMERCIALIZATION

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 22. RESEARCH COMMERCIALIZATION (CONTINUED)

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

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

From inception, the University has advanced approximately \$1,488,000 to HSI to develop its patented isotopes. For 2016, based on an evaluation of collectability of funds advanced, the University provided an allowance on its receivable balance from HSI in the amount of \$500,000. Collateralization efforts will continue for 2017. HSI recorded a gain from debt relief on the \$500,000 of reduction in amounts due to the University.

NOTE 23. LEASE WITH NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION

The Foundation leases a building it owns in Rio Rancho, New Mexico to New Mexico Highlands University. The Foundation entered into a twenty-year operating lease agreement on January 30, 1997. Lease income for the year ended June 30, 2016, was 378,680.

The Foundation has entered into a second operating lease agreement with Highlands University for the 8th Street Parking lot adjoining the campus. The Foundation purchased the property in 2014 and has entered into the lease on February 1, 2014, for a five-year period. Monthly rental is \$3,100 per month. Rental income for the year ended June 30, 2016, was \$40,300.

NOTE 24. LIBRARY ART INVENTORY – PRIOR PERIOD ADJUSTMENT

The University has restated the Library Art work from \$71,650 to \$687,323; which is at the original acquisition value.

NOTE 25. UNRESTRICTED NET POSITION SUPPLEMENTAL DISCLOSURE

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

Unrestricted net position (as stated in the statement of net position)	(\$43,936,781)
Add: Net effect of pension adjustments	<u>48,307,987</u>
Adjusted unrestricted net position	<u>\$ 4,371,206</u>

NOTE 26. RECONCILIATION OF BUDGET BASIS TO GAAP

	<u>Revenues</u>
Budget Basis Revenue	\$ 77,993,366
Scholarship Allowance	(2,790,276)
Unbudgeted Exhibits	(351,291)
Endowment	15,979
Agency	<u>179,876</u>
Revenues per GAAP	<u>\$ 75,047,654</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

NOTE 26. RECONCILIATION OF BUDGET BASIS TO GAAP (CONTINUED)

	<u>Expenditures</u>
Budget Basis Expenditures	\$ 75,944,051
Scholarship Allowance	(2,790,276)
Capital Expenditures	(8,437,335)
Bond Payments	(1,155,738)
Other	79,520
Unbudgeted Exhibits	1,186
Endowment	138,497
Agency	208,096
Depreciation Expense	4,517,899
Other	<u>(609,469)</u>
Expenses per GAAP	<u>\$ 67,896,431</u>

NOTE 27. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 21, 2016, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2016. Management reviews include the New Mexico Highlands Foundation, Inc. and Highlands Stable Isotopes, Inc.

The following item is reported by management as a subsequent event:

On September 2, 2016, the University was placed on probation by its accreditor, the Higher Learning Commission (HLC). Reasons for this per HLC include noncompliance with the Criteria for Accreditation and the Core Components which have operational, human resource, and financial requirements. The University has until November 2017 to cure the issues raised by HLC. Management believes no other material subsequent events have arisen that would require adjustment or disclosure.

NOTE 28. NEW ACCOUNTING STANDARD

GASB 75

Governmental Accounting Standards Board Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). Management has not yet fully determined the impact of GASB 75.

REQUIRED SUPPLEMENTARY INFORMATION

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Educational Retirement Board (ERB) Plan
Last 10 Fiscal Years*

Year Ended June 30	University's Proportion of The Net Pension Liability	University's Proportionate Share of the Net Pension Liability	University's Covered Payroll	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	University's Proportionate Share Plan Fiduciary Net Position as A Percentage of The Total Pension Liability
2015	.81023%	\$ 46,229,535	\$ 24,563,545	188%	66.54%
2016	.77310%	\$50,075,746	\$ 21,108,107	237%	63.97%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, New Mexico Highlands University's will present information for those years for which information is available.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF CONTRIBUTIONS
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years***

Year Ended June 30	Contractually Required Contribution	Contributions In Relation To The Contractually Required Contribution	Contribution Deficiency (Excess)	University's Covered Payroll	Contributions As A Percentage of Covered Payroll
2015	\$ -	\$ -	\$ -	\$ 24,563,545	-
2016	\$3,486,299	\$3,054,737	\$431,552	\$ 21,108,107	14.47%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled. The University will present information for those years for which information is available.

SUPPLEMENTAL INFORMATION

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF BUDGETARY COMPARISONS – BUDGETARY BASIS
COMBINED REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 19,247,357	\$ 6,834,098	\$ 6,355,791	\$ (478,307)
Unrestricted & Restricted Revenues				
State general fund appropriations	31,751,600	31,561,000	31,561,502	502
Federal revenue sources	9,380,134	8,775,340	8,195,176	(580,164)
Tuition and fees	15,704,606	15,356,755	15,946,949	590,194
Land and permanent fund	220,801	226,450	235,979	9,529
Private grants/contracts	3,371,174	3,245,571	2,358,407	(887,164)
Sales & service	4,824,474	4,914,315	3,743,039	(1,171,276)
Government grants - state	4,940,470	4,163,226	4,290,784	127,558
Endowments and private gifts	-	-	-	-
Other	957,532	2,172,780	1,329,083	(843,697)
Capital outlay	-	12,235,000	10,332,447	(1,902,553)
Total revenues	<u>71,150,791</u>	<u>82,650,437</u>	<u>77,993,366</u>	<u>(4,657,071)</u>
Total Unrestricted & Restricted Revenues	<u>90,398,148</u>	<u>89,484,535</u>	<u>84,349,157</u>	<u>(5,135,378)</u>
Unrestricted & Restricted Expenditures				
Instruction and general	39,415,569	37,970,219	36,919,054	(1,051,165)
Student social and cultural	983,243	954,579	870,462	(84,117)
Research	1,746,148	1,769,545	2,107,684	338,139
Public service	8,643,900	7,384,846	7,012,446	(372,400)
Internal service departments	63,642	20,040	11,406	(8,634)
Student aid	8,941,518	8,624,687	8,522,039	(102,648)
Auxiliary enterprises	3,757,188	3,683,061	3,489,482	(193,579)
Intercollegiate athletics	2,936,776	2,915,100	2,747,700	(167,400)
Capital outlay	5,080,031	11,585,600	10,582,308	(1,003,292)
Renewal and replacements	1,271,022	1,500,000	1,306,832	(193,168)
Retirement of indebtedness	2,401,525	2,401,525	2,374,637	(26,888)
Total Unrestricted & Restricted Expenditures	<u>75,240,562</u>	<u>78,809,202</u>	<u>75,944,051</u>	<u>(2,865,151)</u>
Net Transfers	-	-	-	-
Change in net assets-budgetary basis	<u>(4,089,771)</u>	<u>3,841,235</u>	<u>2,049,315</u>	<u>(1,791,920)</u>
Ending Fund Balance	<u>\$ 15,157,586</u>	<u>\$ 10,675,333</u>	<u>\$ 8,405,106</u>	<u>\$ (2,270,227)</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
RESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTIONAL AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues				
Tuition	\$ -	\$ -	\$ -	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	385,536	330,421	293,575	(36,846)
Government grants - state	195,911	172,089	136,859	(35,230)
Contracts - local	-	-	-	-
Private grants/contracts	8,872	27,461	22,575	(4,886)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	<u>590,319</u>	<u>529,971</u>	<u>453,009</u>	<u>(76,962)</u>
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	<u>590,319</u>	<u>529,971</u>	<u>453,009</u>	<u>(76,962)</u>
Expenditures				
Instruction	312,305	286,320	251,679	(34,641)
Academic support	33,371	44,154	37,180	(6,974)
Student services	134,689	139,479	110,049	(29,430)
Institutional support	70,243	26,560	27,247	687
Oper. & maint. of plant	39,711	33,458	26,853	(6,605)
Total expenditures	<u>590,319</u>	<u>529,971</u>	<u>453,009</u>	<u>(76,962)</u>
Change in net assets-budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF BUDGETARY COMPARISONS – BUDGETARY BASIS
SUMMARY OF INSTRUCTIONAL AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Beginning Fund Balance	\$ 1,904,310	\$ 2,690,760	\$ 3,760,957	\$ 1,070,197
Revenues				
Tuition	11,245,000	10,894,795	10,936,421	41,626
Miscellaneous fees	1,452,160	1,468,514	1,280,364	(188,150)
Government appropriations-federal	-	-	-	-
Government appropriations-state	28,568,500	28,398,200	28,397,459	(741)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	220,801	226,450	235,979	9,529
Private gifts	-	-	73,000	73,000
Sales & service	1,500	28,255	27,159	(1,096)
Other sources	767,032	796,740	910,289	113,549
Total revenues	<u>42,254,993</u>	<u>41,812,954</u>	<u>41,860,672</u>	<u>47,718</u>
Total Unrestricted Revenues	<u>44,159,303</u>	<u>44,503,714</u>	<u>45,621,629</u>	<u>1,117,915</u>
Expenditures				
Instruction	20,611,744	19,936,742	19,089,108	(847,634)
Academic support	2,815,446	2,765,446	2,740,127	(25,319)
Student services	3,739,756	3,539,756	3,538,527	(1,229)
Institutional support	6,544,527	6,519,527	6,525,623	6,096
Oper. & maint. of plant	5,113,777	4,678,777	4,572,659	(106,118)
Total expenditures	<u>38,825,250</u>	<u>37,440,248</u>	<u>36,466,045</u>	<u>(974,204)</u>
Net Transfers	2,731,087	2,948,565	2,731,087	(217,478)
Change in net assets-budgetary basis	<u>698,656</u>	<u>1,424,141</u>	<u>2,663,540</u>	<u>1,239,399</u>
Ending Fund Balance	<u>\$ 2,602,966</u>	<u>\$ 4,114,901</u>	<u>\$ 6,424,497</u>	<u>\$ 2,309,596</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
Year Ended June 30, 2016

Schedule 1
Page 1 of 3

	Pledged Collateral		Southwest	Wells Fargo	Community	State	Total
	Safekeeping Location	Type of Security	Capital Bank Las Vegas, NM	Albuquerque NM	1st Bank Las Vegas, NM	Treasurer Santa Fe, NM	
Funds on deposit							
Demand deposits			\$ 2,482,730	\$ 921,583	\$ 6,553,418	\$ 231,069	\$ 10,188,800
FDIC insurance							
Demand deposits			(250,000)	(250,000)	(250,000)	-	(750,000)
Total uninsured public funds			\$ 2,232,730	\$ 671,583	\$ 6,303,418	\$ 231,069	\$ 9,438,800
Collateral			(50%)	(50%)	(102%)		
Requirement per section 6-10-17 NMSA			\$ 1,116,365	\$ 335,792	\$ 6,429,486	N/A	\$ 7,881,643
Pledged collateral							
	Federal Reserve Bank	FNMA ARM CUSIP #31416BLS5			26,536		26,536
	Federal Home Loan Bank	FNMA CUSIP #31400H7K3			352,039		352,039
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7			369,010		369,010
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7			442,813		442,813
	Federal Home Loan Bank	GE Elec Cap Corp Floater Note CUSIP #36966THT2			996,849		996,849
	Federal Home Loan Bank	Gen Elec Cap Floater Note CUSIP #36966TJA1			990,279		990,279
	Federal Home Loan Bank	Las Vegas NM City Sch Dist #2 CUSIP #51778FCU1			1,302,062		1,302,062
	Federal Home Loan Bank	Southern Sandoval NM Arroyo CUSIP #843789FC7			508,365		508,365
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7			738,021		738,021
	Federal Home Loan Bank of Dallas	FHLB-LC3649000101 LOC 2696000767	1,100,000				1,100,000
	Bank of New York Mellon	FNMA FNMS CUSIP #3138M9CV1		713,493			713,493
			<u>1,100,000</u>	<u>713,493</u>	<u>5,725,974</u>	<u>-</u>	<u>7,539,467</u>
Deficiency / (Excess) of pledged collateral over the required amount			\$ 16,365	\$ (377,702)	\$ 703,512	\$ N/A	\$ 342,176

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
Year Ended June 30, 2016

Schedule 1
Page 2 of 3

<u>Name of Bank</u>	<u>Account Type</u>	<u>Balance Per Bank Statement</u>	<u>Reconciled Balance Per Books</u>
Southwest Capital Bank - Las Vegas			
Account payable account	Interest bearing checking	\$ 1,044,775	\$ 55,343
Payroll account	Interest bearing checking	1,240,430	1,229,612
University wire-transfer account	Interest bearing checking	1,505	1,505
Cash receipts account	Interest bearing checking	130,927	133,602
Cashier's credit card account	Interest bearing checking	63,771	66,003
Direct lending account	Interest bearing checking	1,322	1,322
Total		<u>2,482,730</u>	<u>1,487,387</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Non-interest bearing checking	17,046	17,046
Rio credit card	Non-interest bearing checking	14,029	14,029
NMHU business	Non-interest bearing checking	463,195	463,195
Online payments	Non-interest bearing checking	374,295	386,534
NMHU golf course	Non-interest bearing checking	22,712	22,712
Farmington	Non-interest bearing checking	21,146	21,146
NMHU savings	Savings	9,140	9,140
Total		<u>921,563</u>	<u>933,802</u>
Community 1st Bank - Las Vegas			
NMHU golf course	Non-interest bearing checking	9,842	10,884
Capital outlay	Money market account	5,645,976	5,645,976
NMHU savings	Savings	897,600	897,600
Total		<u>6,553,418</u>	<u>6,554,460</u>
State Treasurer's Office			
Local government investments	Pooled	231,070	231,070
Cashier's cash			
		<u>-</u>	<u>16,008</u>
	Total cash and cash equivalents	<u>\$ 10,188,781</u>	<u>\$ 9,222,727</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED) – Schedule 3 of 3
Year Ended June 30, 2016**

As of June 30, 2016, cash and cash equivalents recorded in the Foundation’s financial statements were as follows:

	<u>Community 1st Bank</u>
Cash and cash equivalents	
Cash and cash equivalents	\$ 306,898
Reconciling items	<u>(14,724)</u>
Cash and cash equivalents recorded in financial statements	<u>\$ 292,174</u>
Cash and cash equivalents balance	\$ 292,174
FDIC insurance	<u>(250,000)</u>
Cash and cash equivalents recorded in financial statements	<u>\$ 42,174</u>

Custodial credit risk is the risk that in the event of a bank failure, the Foundation’s deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk. As of June 30, 2016, \$42,174 of the Foundation’s bank balance was exposed to uninsured amounts. All of the Foundation’s bank balances are held by Community 1st Bank in Las Vegas, New Mexico.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL
AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS
Year Ended June 30, 2016

Project Description	Authority/Chapter	Laws	Appropriation		Expiration	Total
			Period	Appropriation		
<u>General Obligation Revenue Bond</u>						
General Obligation 14-1303	Critical Infrastructure Improve	Ch 65 Sec 10/C/3	2014	2015	6/30/2018	\$ 5,000,000
General Obligation 12-1246	Trolley Building	Ch 54 Sec 10/C/3	2012	2013	6/30/2016	\$ 6,000,000
General Obligation A12-1234	Library	Ch 54 Sec 10/B/2	2012	2013	6/30/2016	\$ 92,117
General Obligation A14-1291	Library	Ch 65 Sec 10/B/2	2014	2015	6/30/2018	\$ 114,383
	Total General Obligation Revenue Bonds					<u>\$ 11,206,500</u>
<u>Severance Tax Bond Proceeds</u>						
Severance Tax 13A-1892	Athletic Facilities Improvements	Ch 226 Sec 39/1	2013	2013	6/30/2017	\$ 165,000
Severance Tax 13A-1893	Trolley Building	Ch 226 Sec 39/2	2013	2013	6/30/2017	\$ 2,300,000
Severance Tax 14A-2120	Athletic Facilities Improvements	Ch 66 Sec 28	2014	2014	6/30/2018	\$ 265,000
Severance Tax 15A-0981	Athletic Facilities Improve & Vehicles	Ch 3 Sec 36/1	2015	2015	6/30/2019	\$ 140,000
Severance Tax 15A-0982	Health & Safety Infrastructure Improv.	Ch 3 Sec 36/2	2015	2015	6/30/2019	\$ 1,000,000
Severance Tax 15A-0983	Motor Pool & Police Vehicles	Ch 3 Sec 36/3	2015	2015	6/30/2018	\$ 30,000
Severance Tax 15A-0984	Wrestling Facilities Improvements	Ch 3 Sec 36/4	2015	2015	6/30/2019	\$ 20,000
	Total Severance Tax Bonds					<u>\$ 3,920,000</u>
<u>General Funds</u>						
Special Appropriation 15-0001	Campus Security Enhancement	HB2/Sec 5/Paragraph 63		2016	6/30/2016	<u>\$ 75,000</u>
	Total Capital Appropriations					<u>\$ 15,201,500</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL
AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS
FROM THE STATE (CONTINUED)
Year Ended June 30, 2016

<u>Bonds Sold to Date</u>	<u>Bonds Unsold</u>	<u>Amount Available</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>	<u>Art in Public Places</u>	<u>Encumbered Amount</u>	<u>Current Year Reversion Amount</u>	<u>Unencumbered Balance</u>
\$ 5,000,000	\$ -	\$ 5,000,000	\$ 109,997	\$ 3,928,091	\$ -	\$ -	\$ -	\$ 961,912
\$ 6,000,000	\$ -	\$ 6,000,000	\$ 651,548	\$ 5,123,153	\$ 60,000	\$ 55,897	\$ 5,303	\$ 104,099
\$ 92,117	\$ -	\$ 92,117	\$ 44,347	\$ 3,544	\$ -	\$ -	\$ -	\$ 44,226
\$ 114,383	\$ -	\$ 114,383	\$ -	\$ 67,933	\$ -	\$ -	\$ -	\$ 46,450
<u>\$ 11,206,500</u>	<u>\$ -</u>	<u>\$ 11,206,500</u>	<u>\$ 805,892</u>	<u>\$ 9,122,721</u>	<u>\$ 60,000</u>	<u>\$ 55,897</u>	<u>\$ 5,303</u>	<u>\$ 1,156,687</u>
\$ 165,000	\$ -	\$ 165,000	\$ 60,173	\$ 24,054	\$ 1,650	\$ -	\$ -	\$ 79,123
\$ 2,300,000	\$ -	\$ 2,300,000	\$ 45,605	\$ 874,914	\$ -	\$ -	\$ -	\$ 1,379,481
\$ 265,000	\$ -	\$ 265,000	\$ 155,418	\$ 106,932	\$ 2,650	\$ -	\$ -	\$ -
\$ 140,000	\$ -	\$ 140,000	\$ -	\$ 49,736	\$ -	\$ -	\$ -	\$ 90,264
\$ 1,000,000	\$ -	\$ 1,000,000	\$ -	\$ 134,092	\$ -	\$ -	\$ -	\$ 865,908
\$ 30,000	\$ -	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
\$ 20,000	\$ -	\$ 20,000	\$ -	\$ 20,000	\$ -	\$ -	\$ -	\$ -
<u>\$ 3,920,000</u>	<u>\$ -</u>	<u>\$ 3,920,000</u>	<u>\$ 261,196</u>	<u>\$ 1,209,728</u>	<u>\$ 4,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,444,776</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 73,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,266</u>	<u>\$ -</u>
<u>\$ 15,126,500</u>	<u>\$ -</u>	<u>\$ 15,201,500</u>	<u>\$ 1,067,088</u>	<u>\$ 10,406,183</u>	<u>\$ 64,300</u>	<u>\$ 55,897</u>	<u>\$ 6,569</u>	<u>\$ 3,601,463</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING
Year Ended June 30, 2016**

Joint Powers Agreement

<u>Participants</u>	<u>Responsible operating party</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Award</u>
City of Las Vegas Police Department	NMHU	41453	ongoing	\$ -

Memorandums of Understanding

Department of Cultural Affairs	NMHU	07/01/15	06/30/19	\$ 50,000.00
NMHU & NM Library Foundation	NMHU	09/28/15	12/15/16	\$ 1,000.00
San Juan College	NMHU	02/07/00	ongoing	\$ -
Santa Fe Community College	NMHU	08/24/08	ongoing	\$ -
TRIBES	NMHU	02/19/09	06/30/16	\$ 368,963.00
Las Vegas San Miguel County Office	NMHU	03/30/09	ongoing	\$ -
Las Vegas San Miguel County Office Emergency Management	NMHU	10/28/09	ongoing	\$ -
Region IV Narcotics Task Force	NMHU	12/15/09	ongoing	\$ -
LUNA Community College	NMHU	03/24/11	ongoing	\$ -
New Mexico Museum of Natural History Science, and New Mexico Department of Cultural Affairs	NMHU	08/31/12	06/30/18	\$ -
University Blaise Pascal in Clermont-Ferrand, France	NMHU	03/04/15	03/04/20	\$ -
New Mexico State Land Office	NMHU	05/16/13	ongoing	\$ -
The City of Las Vegas	NMHU	11/01/15	10/31/17	\$ -
Pueblo of Nambe	NMHU	08/03/13	ongoing	\$ -
University of New Mexico-Taos Veterans Upward Bound (TRIO-VUB)	UNM-Taos	10/01/15	06/30/16	\$ -
The Department of Defense	NMHU	3/11/2011; updated 12/06/12	03/15/21	\$ -
New Mexico Public Education Department	NMHU	05/06/15	06/30/19	\$ -

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING (CONTINUED)
Year Ended June 30, 2016

<u>Portion \$</u> <u>applicable to</u> <u>New Mexico</u> <u>Highlands</u> <u>University</u>	<u>Amount</u> <u>Contributed</u> <u>(FY16)</u>	<u>Audit</u> <u>Responsibilit</u> <u>y</u>	<u>Fiscal Agent</u>	<u>Purpose</u>
\$ -	\$ -	NMHU	Cassandra Fresquez	New Mexico Highlands University Police Department and the City of Las Vegas Police Department are charged with the duty of enforcing the laws to protect their citizens from illegal activity. New Mexico Highlands University, New Mexico Highlands University PD, the City, and the LVPD recognize that jurisdiction and authority are limited to their respective jurisdictions and such limitations are detrimental in combating crime in the City of Las Vegas and on the Campus of New Mexico Highlands University. The parties recognized that this problem can and must effectively be addressed by pooling resources and the joint exercise of their authorities. Therefore, established a JPA agreement for the prevention, investigation, control and prosecution of illegal activity and Police Training with the jurisdictions of the parties.
\$ 50,000.00	\$ 50,000.00	NMHU	Doug Patinka	To provide means whereby DCA may transfer funds to NMHU to manage the MISF/Muse Program.
\$ 1,000.00	\$ 998.92	NMHU		Funding recording and transcription equipment to be used by professors for an oral history program.
\$ -	\$ -	NMHU	Carol J. Spencer	To establish a unique educational partnership. It initiates the development of integrated, seamless curricula and system of student support services. The curricula will link the completion of an associate's degree from San Juan College to the completion of a bachelor's degree from New Mexico Highlands University. Secondly, it will enable the institutions to make more efficient use of their organizational structures in providing course offerings to a greater number of students. Thirdly, this agreement will establish a process by which individual instructional units at San Juan College and New Mexico Highlands University may integrate instructional matrices.
\$ -	\$ -	NMHU	Sheila Ortego	To articulate twelve hours from the New Mexico Highlands University TESOL License Program into the recently developed SFCC TESOL Endorsement Program
\$ 368,963.00	\$ 73,921.00	NMHU	Norman Coeoyate	To formalize the relationship between New Mexico Highlands University and TRIBES, with goals to promote higher education opportunities leading to the retention and successful completion of degree programs by TRIBES' students. Scholarships are tuition based on current tuition price for both undergraduates and graduates; a total of 69 scholarship are awarded per academic year (fall and spring only); total scholarship awarded were 19.
\$ -	\$ -	NMHU	Dennis English	The purpose of this agreement is for the Area 2 Emergency Management Offices which include the counties of San Miguel, Colfax, Union, Mora and Harding to receive the authorization to utilize New Mexico Highlands University Educational Outreach Services designated Interactive Television training site for the purpose of communication, exercising and training.
\$ -	\$ -	NMHU	Dennis English	To provide proper coordination and expeditious delivery of support and assistance to the citizens of the city of Las Vegas and San Miguel County, New Mexico during an emergency or disaster response.
\$ -	\$ -	NMHU	Gary Gold	To maintain a multi-jurisdictional task force (law enforcement body) in Region IV, which will coordinate available resources to combat a problem common to their respective agencies, the illegal possession, use, manufacture, and distribution of narcotics and dangerous drugs, particularly within the jurisdiction covered by the agencies.
\$ -	\$ -	NMHU	Vidal Martinez	Students completing the Associates of Applied Science Degree in Sports Performance and LUNA can apply those credits and courses toward a Bachelors of Art in Human Performance and Sport with a concentration in Exercise Science or Bachelors of Art in Health with a concentration in Health Promotion and Wellness at New Mexico Highlands University
\$ -	\$ -	NMHU	Veronica Gonzales, Charles Walter	To establish and administer the "Museum Classroom" and "Start Up Studio".
\$ -	\$ -	NMHU	Benjamin van Wyk de Vries	To foster international collaboration in education and research. Which is designed to facilitate and develop a genuine and mutually beneficial student-faculty exchange process and research relationship. The aim is to offer students the benefit of a widened curricula and the opportunity to broaden their cultural and linguistic experience. The exchange is principally built around the exchange of students undertaking master's research projects.
\$ -	\$ -	NMHU	Ray Powell	To define, formalize, and maintain an ongoing, cooperative relationship related to the collection of biological information and the management of natural resources to promote sustainability, responsible trust stewardship, and to increase academic opportunities, including research and teaching, in a manner mutually beneficial to the parties.
\$ -	\$ -	NMHU	Timothy P. Dodge	NMHU will provide live transmission of Las Vegas City Council monthly meetings to Las Vegas citizens through Comcast and streaming video starting at 5:45 pm to 9:00 pm; which are within NMHU EOS' business hours.
\$ -	\$ -	NMHU	Phillip A. Perez	To address retention of Native American Students enrolled at New Mexico Highlands University.
\$ -	\$ -	UNM-Taos	Katherine O'Neill	NMHU and TRIO-VUB are committed to establishing a partnership to expand access and services to Veteran students interested in attending NMHU. TRIO-VUB will provide a staff member to work one-and-one with veteran students interested in attending NMHU. NMHU will provide the office space for TRIO-VUB staff member, share student information as permitted by FERPA, as well as, assist, communicate and promote TRIO-VUB.
\$ -	\$ -	NMHU	Clifford L. Stanley	To establish new policy stating the eligibility criteria for tuition assistance (TA) and the requirement for a MOU from all educational institutions providing educational programs through the DoD TA Program, as well as, establish the Interservice Voluntary Education Board.
\$ -	\$ -	NMHU		To share personally identifiable information of individual TEACHERS (such as teacher and student demographic and performance data).

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF VENDOR INFORMATION (UNAUDITED)
Year Ended June 30, 2016**

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
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None.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Grantor/Program Title	CFDA #	Award/Sub Award #	Subrecipient Expenditures	Expenditures
Research and Development Cluster				
National Science Foundation				
Mathematical and Physical Sciences	47.049	DMR-0934212	-	130,714.00
Provided To Morehouse College				
Mathematical and Physical Sciences	47.049	P0131052/P0140986	25,134.00	25,134.00
Mathematical and Physical Sciences	47.049	DMR-1523611	-	399,462.00
Geosciences	47.050	EAR-1023278-002	-	15,291.00
Geosciences	47.050	EAR-1321763	-	64,801.00
Geosciences	47.050	EAR-1337254	-	54,814.00
Geosciences	47.050	EAR-1543950	-	43,642.00
Education and Human Resources	47.076	DUE-1154471	-	93,204.00
Office of International and Integrative Activities	47.079	IIA-1423396	-	1,404.00
Passed Through University of New Mexico				
Office of Cyberinfrastructure	47.080	063026-8744	-	27,277.00
Total National Science Foundation			25,134.00	855,743.00
Department of Health and Human Services National Institutes of Health				
Passed Through New Mexico State University			-	
Biomedical Research and Research Training	93.859	Q01677	-	182,985.00
Total Department of Health and Human Services-National Institutes of Health				
Department of Defense U.S. Army Material Command				
Basic Scientific Research	12.431	W911NF-15-1-0009	-	140,925.00
Total Department of Defense US Army Material Command				
Total Research and Development Cluster			-	1,179,653.00
United States Department of Education				
Student Financial Aid Cluster				
Federal Work-Study Program - Office of Student Financial Assistance Programs	84.033	P033A132646	-	365,411.00
Federal PELL Grant Program - Office of Student Financial Assistance Programs	84.063	P063P130275	-	5,050,152.00
Federal Supplemental Educational Opportunity Grants - Office of Student Financial Assistance Programs	84.007	P007A132646	-	181,397.00
TEACH Grant Programs - Office of Student Financial Assistance Programs	84.379	P379T140275	-	78,932.00
Federal Direct Student Loans - Office of Student Financial Assistance Programs	84.268	P268K150275	-	11,440,928.00
Federal Perkins Loans - Office of Student Financial Assistance Programs	84.038	000759	-	742,273.00
Total Student Financial Aid Cluster - US Department of Education			-	17,859,093.00
TRIO Programs Cluster			-	
TRIO_Student Support Services	84.042A	042A100293 (P042A050620)	-	148,191.00
Total TRIO Programs Cluster - US Department of Education				
United States Department of Education				
Higher Education_Institutional Aid	84.031C	P031C110033	-	149,001.00
Provided To Luna Community College				
Higher Education_Institutional Aid	84.031C	P0161468	52,703.00	52,703.00
English Language Acquisition State Grants - Office of Elementary and Secondary Education	84.365Z	T365Z120020	-	346,582.00
Passed Through University of New Mexico-Taos				
Higher Education_Institutional Aid	84.031S	P031S140070	-	159,975.00
Advanced Placement Program	84.330B	15-924-00279	-	153,800.00
Total US Department of Education			52,703.00	18,869,345.00

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2016

Federal Grantor/Program Title	CFDA #	Award/Sub Award #	Subrecipient Expenditures	Expenditures
United States Department of Agriculture				
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2012-38422-19865	-	32,428.00
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22463	-	82,836.00
Passed Through University of New Mexico-Taos				
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22086	-	57,198.00
Passed Through New Mexico State University				
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	Q01512/SUB	-	31,210.00
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	Q01821	-	21,618.00
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	10-DG-11031600-051	-	29,174.00
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	10-DG-11031600-084	-	71,371.00
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	14-DG-11031600-047	-	52,181.00
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	15-DG-11031600-074	-	98,090.00
Passed Through Northern Arizona University				
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	14-DG-11031600-082	-	44,556.00
Total United States Department of Agriculture			-	520,662.00
United States Department of Interior				
Bureau of Land Management				
Forest and Woodlands Resource Management	15.233	L11AC20181	-	2,147.00
Total US Department of Interior			-	2,147.00
Department of Justice Office on Violence Against Women				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2014-WA-AX-0003	-	77,724.00
Total Department of Justice Violence Against Women Office			-	77,724.00
Department of Energy				
Passed Through Regional Development Corporation				
Environmental Remediation and Waste Processing and Disposal	81.104	DE-EM0001367	-	46,102.00
Total US Department of Energy			-	46,102.00
Department of Health and Human Services				
Passed Through New Mexico Childrens Youth and Families Department				
Foster Care Title IV-E - Administration for Children and Families	93.658	15-17849	-	1,721,832.00
Passed Through the University of Texas				
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance - Substance Abuse and Mental Health Services Administration	93.243	UTA12-001073	-	10,021.00
Total US Department of Health and Human Services			-	1,731,853.00
Corporation for National and Community Service				
Passed Through New Mexico Department of Children Youth and Families				
AmeriCorps Recovery	94.006	15-631-8001-00017	-	34,709.00
Americorps Recovery	94.006	15-631-8001-00056E	-	86,167.00
Total Corporation for National and Community Service			-	120,876.00
Total Federal Awards Expended			\$ 77,837.00	\$ 22,548,362.00

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
June 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes all federal assistance to the University that had activity during 2016 or accrued revenue at June 30, 2016. This schedule has been prepared on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenues are recorded for financial reporting purposes when the University has met the qualifications for the respective program.

NOTE 2. CONTINGENCIES

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

NOTE 3. INDIRECT COST RATE

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

NOTE 4. FEDERAL LOAN PROGRAM

The Perkins Loan Program (CFDA #84.038) is administered directly by the University and balances and transactions relating to this program are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Total outstanding loans under this U.S. Department of Education program at June 30, 2016 were \$659,422.

NOTE 5. OTHER DISCLOSURES

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Regents
New Mexico Highlands University
and
Mr. Timothy Keller
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each discretely presented component unit, and related notes, which collectively comprise the basic financial statements of New Mexico Highlands University (the University), as of and for the year ended June 30, 2016. We have also audited the budgetary comparison schedules presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2016 and the related notes and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-004 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-002 and 2016-001 which we consider to be significant deficiencies.

Compliance and Other Matters

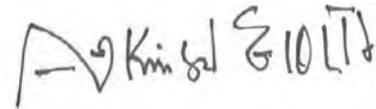
As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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* and 2.2.2. NMAC and which are described in the accompanying schedule of findings and questioned costs as items 2015-001, 2016-002, 2016-003, and 2016-004.

The University's Response to Findings

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

Purpose of this Report

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



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 21, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Regents
New Mexico Highlands University
and
Mr. Timothy Keller
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited New Mexico Highlands University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and responses.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audits of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

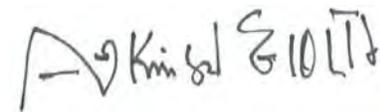
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-010, which we consider to be a significant deficiency.

The University's Response to Findings

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

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



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 21, 2016

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified? X Yes None reported

Non-compliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? X Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes X No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
10.223	Hispanic Serving Institutions Education Grants

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee? Yes X No

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SUMMARY OF AUDIT FINDINGS
Year Ended June 30, 2016

PRIOR YEAR FINDINGS

Status

Financial Statement Audit

2013-001	Due From Component Unit – Deficit Net Position (Control Deficiency)	Resolved
2014-010	Suspension and Debarment (Significant Deficiency/ Other Noncompliance)	Resolved
2015-002	University Policies Not Approved (Significant Deficiency)	Repeated
2015-003	Development And Testing Of A Disaster Recovery Plan (Significant Deficiency)	Resolved
2015-004	Capital Asset Accounting (Material Weakness)	Repeated and Modified
2015-005	Vendor Information (Other Noncompliance)	Resolved
2015-006	Component Unit (NM Highlands Foundation) (Other Noncompliance)	Resolved
2015-007	Component Unit (NM Highlands Foundation) (Other Noncompliance)	Repeated
2015-008	Component Unit (NM Highlands Foundation) (Findings that do not Rise to the Level of a Significant Deficiency)	Resolved
2015-009	Component Unit (Highlands Stable Isotopes Corporation) (Material Weakness)	Repeated
2015-010	Component Unit (Highlands Stable Isotopes Corporation) (Other Noncompliance)	Resolved

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2015-001	Insufficient Collateral (Other Noncompliance)	Repeated
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Federal Award Findings and Questioned Costs

2014-010	Suspension and Debarment (Significant Deficiency/ Other noncompliance)	Repeated and Modified
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CURRENT YEAR FINDINGS

Financial Statement Audit

2015-002	University Policies Not Approved (Significant Deficiency)
2015-004	Capital Asset Accounting (Material Weakness)
2015-007	Component Unit (NM Highlands Foundation) (Other Noncompliance)
2015-009	Component Unit (Highlands Stable Isotopes Corporation) (Material Noncompliance)
2016-001	Segregation of Duties Over Payroll (Significant Deficiency)

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SUMMARY OF AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2016**

CURRENT YEAR FINDINGS – CONTINUED

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

- 2015-001 Insufficient Collateral (Other Noncompliance)
- 2016-002 Gas Cards and University-owned Vehicles (Findings that do not Rise to the Level of a Significant Deficiency/Other Noncompliance)
- 2016-003 Budget Overspending (Other Noncompliance)
- 2016-004 Late Audit (Other Noncompliance)

Federal Award Findings and Questioned Costs

- 2014-010 Suspension and Debarment (Significant Deficiency)

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS

2015-002 UNIVERSITY POLICIES NOT APPROVED (SIGNIFICANT DEFICIENCY)

CONDITION

Our audit included review of the University's Policies and corresponding procedures for significant functions of the University. The policy binder was provided in draft form as the policies have never been formally approved by the Regents or by other responsible officials. Further examination revealed that the policies were in need of revision in certain areas and have been unchanged in recent years. Turnover in the Business Office prevented policies from being drafted and approved in FY16.

CRITERIA

Policies and Procedures are a significant and important part of the documented system of internal control and serve principally as directives for required actions to University staff. Policies and procedures define control procedures that help to ensure correct accounting for transactions and effective oversight of identified risk areas. Policies and procedures further demonstrate intent to funding sources to administer funds in accordance with grant covenants where policies are in place that addresses the respective grant requirements. Policies and procedures are a component of the general control environment of the University that allows more specific controls to function effectively.

EFFECT

The lack of approved University policies may affect and diminish the overall control environment. Individual policies and corresponding controls currently functioning may not be in agreement with the documented policies. The oversight function of the Regents or other responsible officials may not be as effective as possible for these types of matters.

CAUSE

Policies and procedures were not considered for approval by the Regents or other responsible officials. There is not a formal process for revision of policies and procedures and subsequent approval on a periodic basis.

RECOMMENDATION

We recommend that a process be defined for the review of policies and procedures of the University and revisions recommended as appropriate. The revised policies and procedures should be approved by responsible officials and updated periodically as needed.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with this finding. Due to recent high-level personnel changes within the Business Office, the policies were not finalized through the Board of Regents. The University will finalize the Business Office policies to ensure that they have been properly revised and approved by the Board of Regents. We expect to resolve this finding by March 2017.

POINT OF CONTACT

Max Baca - VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-004 CAPITAL ASSET ACCOUNTING (MATERIAL WEAKNESS)

CONDITION

The following deficiencies were noted during the testing of capital assets:

- The University continues to use a manual spreadsheet to calculate depreciation and maintain asset information. Errors were made in calculations during the year.
- The University's art collection was reported in previous years at an incorrect amount. An increase of approximately \$615,000 was recorded as a prior period adjustment to properly report the original value of art.
- Journal entries to record asset additions were not made.
- Closing entries to record depreciation expense and adjust capital outlay expense for current year additions were not accurate.
- A land acquisition was not added to asset listing or recorded.
- Financial statement note disclosures related to capital assets were not accurate.

CRITERIA

Amounts recorded in the financial statements should agree to subsidiary ledgers and such ledgers should be complete and accurate. Financial statement disclosures should agree to underlying data.

CAUSE

Manual records are kept in spreadsheets which are very susceptible to human error. Inadequate review of calculations and supporting documentation.

EFFECT

Asset and expense accounts had to be adjusted by material amounts.

RECOMMENDATION

We recommend a more detailed review of the entire capital asset accounting and financial reporting process. We also recommend that the University consider purchasing a capital asset software package to maintain the subsidiary ledgers to replace the manual spreadsheet currently being used.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University has made significant changes in process improvement in this area; however, due to recent staff turnover within the Purchasing and Business Departments, the University could not demonstrate that a formal written update procedure was established or put into place during the audit engagement. The University concurs with this finding. The University will ensure that proper procedures, processes, and reporting will be established, and tested by the end of January 2017. The new finance and purchasing directors will be responsible for these actions.

POINT OF CONTACT

Adam Bustos – Purchasing Director
Dominic Chavez – Unrestricted Accounts Manager
Gayle Martinez – Restricted Accounts Manager

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2016-001 SEGREGATION OF DUTIES OVER PAYROLL (SIGNIFICANT DEFICIENCY)

CONDITION

Based on our understanding of internal controls we observed that the payroll manager processes payroll almost entirely by herself and there is no final review of the payroll run before it is posted to the general ledger and paid.

CRITERIA

Segregation of duties in significant transaction classes is imperative in a system of internal controls to mitigate error and fraud.

CAUSE

Unknown.

EFFECT

This lack of segregation of duties in the payroll function increases the risk that an error or irregularity could occur and go undetected.

RECOMMENDATION

We recommend that management review the payroll process from start to finish and determine where other employees can take on some tasks and determine an appropriate level of review prior to final processing.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with this finding and the University will put in place the necessary internal controls for payroll operations. We expect to resolve this finding by November 2016.

POINT OF CONTACT

Dr. Denis Montoya – Director of Human Resources

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC

2015-001 INSUFFICIENT COLLATERAL (OTHER NONCOMPLIANCE)

CONDITION

Bank account deposits for the University, as public funds, are required to be collateralized to a level required by state statute. The main checking account for the University was under collateralized in comparison to the required level of 102% at June 30, 2016. The University was assured by the financial institution that additional collateral was in place when in fact it was not. Management did not adequately monitor collateral information.

CRITERIA

6-10-17 NMSA 1978 requires deposits in public institutions to be collateralized to at least 50% of the deposit balance. 6-10-20 NMSA 1978 requires additional collateral from bank institutions above 50% if so designated by the State Board of Finance.

CAUSE

The basic requirement of 50% collateralization was in place but the University was unaware of the additional requirement of 102% for their main banking institution.

EFFECT

The University was not in compliance with state law regarding public monies.

RECOMMENDATION

We recommend that the additional collateral be secured as soon as practical and that a monitoring procedure is set up to ensure adequate collateral in the future.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University worked with the Community 1st Bank of Las Vegas's management and was assured that the Bank was improving its financial condition to keep the University deposits from requiring 102% collateral. The University will review the contractual agreement with the First Community Bank and will require that all banks holding Highlands' deposits meet the required collateral. In addition, the University will review the NM State Treasure web site on a biannual basis and make the necessary transfers or modification of contractual terms to ensure the deposits are properly collateralized.

POINT OF CONTACT

Max Baca - VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (CONTINUED)

**2016-002 GAS CARDS AND UNIVERSITY-OWNED VEHICLES (FINDINGS THAT DO NOT
RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY/OTHER
NONCOMPLIANCE)**

CONDITION

There is no formal policy governing appropriate procedures for monitoring the use of gas cards and University-owned vehicles for individual departments (i.e. other than the motor pool). No usage logs, control of gas cards, or review of receipts was observed by the auditors.

CRITERIA

Strong internal controls include procedures to ensure that all purchases made are legitimate and reasonable (i.e. not indicative of abuse). Additionally, per State Auditor Risk Advisory dated June 11, 2013, public entities should design and implement internal controls to ensure that all gas card purchases are in compliance with state regulations (and internal policies) and implement monitoring processes that are geared toward identifying potential unallowed purchases.

CAUSE

Unknown.

EFFECT

A lack of oversight increases the risk of fraud and abuse.

RECOMMENDATION

We recommend that management review the established procedures and ensure that requirements are applied across the University.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University has made significant changes in process improvements and compliance in this area; however, the University could not demonstrate that a formal, written, adopted policy was in place during the audit engagement. Therefore, the University concurs with this finding only to the extent that the University does not have a written policy. The University will develop the gas card policy and seek authorization from the Board of Regents. We expect to resolve this finding by March 2017. The Purchasing Director will be responsible for this action.

POINT OF CONTACT

Adam Bustos – Purchasing Director

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (CONTINUED)

2016-003 BUDGET OVERSPENDING (OTHER NONCOMPLIANCE)

CONDITION

The University's actual expenditures exceeded the approved budget in the following areas:

- Unrestricted Current Funds – Research \$338,1391
- Unrestricted Current Funds – Public Service \$6,783

CRITERIA

Per 5.3.4.10 NMAC, total expenditures may not exceed amounts shown in the approved budgets at the level of budgetary control. Adequate internal controls to minimize budget overspending should ensure that budgets are not exceeded by any amount.

CAUSE

Budget adjustment requests were not completed to cover the increase in expenditures. Staffing issues caused a journal entry to be made after year-end which did not permit a budget adjustment to be requested timely.

EFFECT

Continued spending in excess of the budget could result in a shortfall of cash, a reduction in reserves and deterioration of the University's overall financial health.

RECOMMENDATION

We recommend that budget controls and processes at the University be strengthened to ensure that budgeted amounts are not overspent and financial reporting and budget adjustments are completed on a timely basis.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University has made significant changes in budgetary controls and process improvements in this area; however, due to the complexities of recognizing the outstanding receivables on the Highlands Stable Isotopes component unit, the overrun was directly a result of the adjustment of this receivable. The Budget Director will continue to implement proper fiscal controls to ensure no budget overruns.

POINT OF CONTACT

Patrick Alarid – Budget Director

2016-004 LATE AUDIT (OTHER NONCOMPLIANCE)

CONDITION

The annual audit of the University was not submitted to the Office of the State Auditor by the statutory deadline of November 15, 2016. The date the financial statements were ready for issuance was November 21, 2016.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (CONTINUED)

2016-004 LATE AUDIT (OTHER NONCOMPLIANCE) (CONTINUED)

CRITERIA

Per State Audit Rule 2.2.2.9 A 1 (d), the audited financial statements of Institutions of Higher Education are due by November 15 following the close of the year under audit. The annual audits of the University have been filed on time in recent years.

CAUSE

The University was without a controller from June 30, 2016 through the end of the audit. Significant audit procedures had to be performed after the original fieldwork completion date because a significant amount of requested information needed for the audit was not yet available. There was a delay in providing auditors with information to test capital assets, including significant time to reconcile and provide accurate detailed schedules. The University draft of the financial statement was received on November 10. The receipt of certain other audit information did not occur until November 11 and all final schedules and information received then required time to test and in some cases required additional reconciliation and modification. Auditors then needed additional time to complete all audit procedures, to perform necessary reviews of the financial statements prepared by the University and to perform its quality control procedures to ensure a high quality audit document and closure on all audit procedures.

EFFECT

The University was not in compliance with state law.

RECOMMENDATION

We recommend the University fill its controller position. Accounting contractors can be hired to assist with the year-end closing if the position is unable to be filled. A milestone schedule with completion dates can be agreed on to ensure on time completion; the University should develop a strategy for ensuring that auditor requests are responded to timely and that delays be communicated early and frequently to allow for fieldwork timing to be changed.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University is disappointed that its annual audit was not provided by the prescribed date. At the exit conference, the University was assured by the Auditing firm that the audit would be submitted on time. The university agrees that a few items were needed by the Auditing firm to complete the audit; however, the University maintains that it had met the deadline prescribed, which was by noon November 10. The University communicated to the auditing firm that its staff were available to them 24/7/365. Yet, the VP of Finance & Administration only received one voicemail from the auditing firm on 11/14/16 at 5:38 asking for a call back. Although the auditing firm points to University staff turnover as one reason for the audit being late, the University disagrees with this assertion. The University believes that the audit's late submittal lies squarely on the auditing firm.

AUDITOR RESPONSE

Information received to complete the audit needed adjustment including capital assets, schedules, certain financial statement components, and budget schedules. Needed reconciliations and modifications pushed the completion time beyond deadline.

POINT OF CONTACT

Max Baca - VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

FEDERAL AWARD FINDINGS

2014-010 SUSPENSION AND DEBARMENT (SIGNIFICANT DEFICIENCY)

**Funding Agency: U.S. Department of Agriculture
Program: Hispanic Serving Institutions Education Grants
CFDA No.: 10.223
Period 10/1/2014 – 9/30/2015, 10/1/2015 – 9/30/2016**

CONDITION

There is not a process in place to ensure that vendors are reviewed for suspension/debarment status prior to being paid with federal funds. The University has made significant changes in process improvement in this area; however, due to recent critical staff turnover within the Purchasing Department, the University could not demonstrate that a formal written procedure was put into place during the audit engagement.

CRITERIA

Requirements for suspension and debarment are contained in the OMB guidance in 2 CFR part 180. Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria.

CAUSE

There was no documentation available to determine whether the University reviewed the excluded parties listing prior to contracting with these vendors.

EFFECT

The University, by not documenting compliance with this requirement, could not substantiate whether the vendors it contracted with were excluded parties. Potential questioned costs could result from disbursing Federal funds to an excluded party. The transactions reviewed were not with excluded parties.

QUESTIONED COSTS

None.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with this finding only to the extent that the University does not have a written procedure. The University will put into place a written procedure by mid December 2016 and ensure that our current quarterly or semi-annual review of these types of contracts will continue. The new Purchasing Director will be responsible for these actions.

POINT OF CONTACT

Adam Bustos – Purchasing Director

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SUMMARY OF AUDIT FINDINGS – COMPONENT UNITS
Year ended June 30, 2016**

Prior Year Findings Description

New Mexico Highlands University Foundation, Inc.

2015-006 Investment Policy Statement (Other Noncompliance)	Resolved
2015-007 Foundation Budget (Other Noncompliance)	Repeated
2015-008 Bylaws (Findings that Do Not Rise to the Level of a Significant Deficiency)	Resolved

Highlands Stable Isotopes, Inc.

2015-009 Income Taxes And Tax Status (Material Weakness)	Repeated
2015-010 Timing Of Annual Audit (Other Noncompliance)	Resolved

Current Year Findings Description

New Mexico Highlands University Foundation, Inc.

2015-007 Foundation Budget (Other Noncompliance)

Highlands Stable Isotopes, Inc.

2015-009 Income Taxes And Tax Status (Material Weakness)

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – COMPONENT UNITS
Year ended June 30, 2016**

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.

2015-007 FOUNDATION BUDGET (OTHER NONCOMPLIANCE)

CONDITION

The Foundation is not currently preparing an annual budget by projecting revenues that it will receive and expenses it is responsible for in the coming year and submitting them to the Board for approval. Such approved budgets serves as authorization for budgeted expenses during the year. The Foundation discussed its plans for a budget format and approval timing in its last meeting. Procedures to eliminate this finding are in progress.

CRITERIA

The Bylaws of the Foundation as Amended 2008 (updated and amended on July 15, 2016) indicate that an annual budget shall be created and shall be submitted to the Board for approval each year. The approved budget serves as authorization for the Executive Director to expend budget amounts.

EFFECT

The planning activities of the Foundation for the upcoming year are not documented through an annual budget. The Foundation may not have the full consideration of its upcoming activities that a budget plan and approval process can provide. Expenditures made by the Executive Director are not authorized through a budget process. The Foundation is not in compliance with its Bylaws.

CAUSE

The revenue and expenses that the Foundation is responsible for are not complex. New Mexico Highlands University is responsible for operating items including administrative staff assigned to the Foundation and other needed administrative expenses. Investment returns do not readily lend themselves to a budget process except for investment expenses and dividends and interest. Due to changes in management personnel, the Foundation has operated with different individuals in most recent years. Current management is working with the Board on developing budget format and process, but has not been able to complete their work to bring this finding to a close.

RECOMMENDATION

We recommend that the budget process as described in the Bylaws be instituted on an annual basis or that the Bylaws be rewritten to reflect the operating needs of the Foundation in regard to the Boards authorization of expenditures.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

Although the NMHU Foundation does not yet have a forward-looking budget in place that has been approved by its Board of Directors, significant progress on addressing this finding has been made, including formation of a Budget Committee by the Board of Directors at its July 15, 2016 meeting, initial presentations of budget format and past budget data to the Budget Committee Chair in August, September, and October, and ongoing efforts to complete a draft budget for presentation to the Board of Directors at its March 2017 meeting.

POINT OF CONTACT

Theresa Law – Executive Director

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – COMPONENT UNITS (CONTINUED)
Year ended June 30, 2016**

HIGHLANDS STABLE ISOTOPES CORPORATION

**FINANCIAL STATEMENT FINDING REQUIRED BY *GOVERNMENT AUDITING
STANDARDS***

2015-009 TAX STATUS (MATERIAL NONCOMPLIANCE)

CONDITION

As a result of audit procedures, we determined that the following items, in combination, constitute material noncompliance with laws and regulations:

- Federal and New Mexico (NM) state corporate income tax returns have not been filed since HSI's inception.
- Though indicated in the financial statements, an application for exempt status under section 501(c)(3) of the IRC has not been filed with the IRS.

Management is working with the law firm who assisted the entity with tax status issues at inception and an outside accountant to determine the appropriate course of action in regard to the corporation's tax status and delinquent filings.

There has been no significant progress in relation to filing tax returns for the Corporation or an application for tax exempt status with the IRS.

CRITERIA

Because HSI has not filed an application with the IRS for exemption under section 501(c)(3) of the IRC, HSI is considered a taxable corporation. HSI is required to file federal and NM state corporate income tax returns even if no taxable income exists.

HSI is organized as a nonprofit corporation under the laws of the state of NM and should have applied for exempt status with the IRS as soon as possible after HSI's formation.

EFFECT

HSI is not in compliance with federal and state law and may be subject to penalties and interest from the state of NM.

CAUSE

Ineffective oversight by those charged with governance.

RECOMMENDATION

We recommend that management and the Board file all required tax returns and file the application for exempt status as soon as possible.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – COMPONENT UNITS (CONTINUED)
Year ended June 30, 2016**

HIGHLANDS STABLE ISOTOPES CORPORATION (CONTINUED)

**FINANCIAL STATEMENT FINDING REQUIRED BY *GOVERNMENT AUDITING
STANDARDS* (CONTINUED)**

2015-009 TAX STATUS (MATERIAL NONCOMPLIANCE) (CONTINUED)

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The University agrees with this audit finding. The University has had difficulty determining the appropriate forms to file because of recent staff turn-over, and its legal team was also unable to determine the tax liabilities given the University's unknown 501(c)(3) application status. It was impossible for us to determine the appropriate path forward to resolve this matter. The proper process has since been determined, and the University will be filing the appropriate forms. The Vice President for Finance and Administration is working on the corrective action plan, and the Board of Regents and President Minner have dissolved the corporation's governing board and are in the process of liquidating its outstanding payables.

POINT OF CONTACT

Max Baca - VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
EXIT CONFERENCE
JUNE 30, 2016**

An exit conference was held on November 9, 2016, with the following in attendance:

For the New Mexico Highlands University:

Dr. Sam Minner	President, Highlands University
Max Baca	Vice President for Finance and Administration
Frank Marchi	Member, Board of Regents Highlands University
Dominic Chavez	Business Office
Gayle Martinez	Business Office
Eleanor Duran	Business Office
Adam Bustos	Director, Purchasing
Michelle Bencomo	Financial Aid
Patrick Alarid	Director, Budget
Elizabeth Maestas	Human Resources, Payroll
Anthony Trujillo	Human Resources, Payroll
Phillip Escue	IT Services

For Atkinson & Co., Ltd.:

Martin E. Mathisen, CPA, CGFM	Audit Director
Sarah Brack, CPA, CGFM, CGMA	Audit Manager

NOVEMBER 2016

FINANCIAL AUDIT FOR FISCAL YEAR 2016



NEW MEXICO HIGHLANDS UNIVERSITY®