

**NEW MEXICO  
HIGHLANDS  
UNIVERSITY  
Agency#957**

**Financial  
Statements  
Fiscal Year  
June 30, 2017**

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

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**June 30, 2017**

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



Founded in 1893, New Mexico Highlands University is a multicultural university at which Hispanic, Native American, and African American students comprise some 64.4 percent of the enrollment. Forty percent of our students are studying at the master's level in the Schools of Education, Social Work, and Business, Media and Technology 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.

On July 1, 2015, I became Highlands University's 18<sup>th</sup> president. With my servant, leadership style coupled with the hard working faculty and staff, we shall continue to be Northern New Mexico's university of choice. I have put in place some new initiatives that are building on those previous achievements for the continual success of Highlands.

Investing in the future, included revamping of our advancement and foundation office. We added new positions and hired a VP for Advancement. Secondly, regarding strategic enrollment management, I engineered a comprehensive strategic enrollment management plan, including new positions, advance analytical tools, implementation of effective best practices, and a robust marketing plan.

Investing in our product, prompted us to establish a Center for Teaching Excellence. This center has helped faculty to expand on industry-wide high-impact practices, development of undergraduate research opportunities, and active learning techniques and activities. New opportunities, the growth of online programs and new areas of study such as allied health degrees and programs, provides potential for substantial growth for programs here at HU. As you will see in this report, Highlands has seen some recovery of state funding since the reductions during the recent recessionary period. We still have challenges in recovery from the recession and decline in state appropriations due to dependency on oil and gas revenues. However, our future is bright at HU and it is a privilege to serve this institution.

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

**June 30, 2017**

**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	Treasurer	December 31, 2022
John Ramon Vigil	Student Member	December 31, 2018

**Principal Administrative Officials**

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

**Principal Financial Officials**

Paula M. Escudero	Director of Finance/Comptroller
Dominic Chavez	Unrestricted Funds Manager
Gayle Martinez	Restricted Funds Manager

# **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

Mr. Wayne Johnson  
New Mexico State Auditor  
and  
The Board of Regents  
New Mexico Highlands University

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of New Mexico Highlands University (the University) as of and for the year ended June 30, 2017, 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, 2017, 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 misstatements, whether due to fraud or error.

### **Auditor's 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 aggregate discretely presented component units of the University as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, and the budgetary comparisons as of and for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the 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, 2017, and the changes in its financial position and its cash flows for the year 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 and on pages 5 to 11 and the pension schedules on pages 52 to 53 for the University's participation in the Educational Retirement Board Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **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.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017, on our consideration of the University's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

***Ricci & Company, LLC***

Albuquerque, New Mexico  
November 1, 2017

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

## Introduction

The following discussion and analysis provides an overview of the financial position and analysis of New Mexico Highlands University. It is intended to make the University financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the "University's" position and results of operations as of and for the year ended June 30, 2017. 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 (Ricci & Co., LLC) on the fairness (in all material respects) of our financial statements.

*Statement of Net Position* presents the assets, liabilities, and net position of the University at a point in time (June 30, 2017). 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, 2017). 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;

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

*Statement of Cash Flows* presents cash receipts and payments of the University during a period of time (year ended June 30, 2017). 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](mailto:slweaver@nmhu.edu))).**

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

Financial Highlights

**During the fiscal year ended June 30, 2017, the University's net position increased by 18% from \$33 million to \$40 million and cash and cash equivalents increased by .07%, from \$8.9 million to \$9.6 million.**

**CONDENSED STATEMENT OF NET POSITION**

**Net Position as of June 30, 2017 and 2016 (thousands)**

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$16,107	\$16,932
Restricted cash	2,333	2,328
Assets held by others	2,320	1,711
Due from component unit	455	988
Endowment investments	4,197	7,284
Capital assets, net of accum. depr.	<u>99,190</u>	<u>90,536</u>
Total assets	<u>124,602</u>	<u>119,779</u>
Deferred outflows	<u>7,715</u>	<u>4,866</u>
Liabilities:		
Current liabilities	10,894	11,619
Non-current liabilities	25,370	27,860
Net pension liabilities	<u>53,893</u>	<u>50,076</u>
Total liabilities	<u>79,264</u>	<u>88,502</u>
Deferred inflows	<u>2,799</u>	<u>3,098</u>
Net Position:		
Invested in capital assets, net of debt	73,330	62,919
Restricted for nonexpendable	9,322	8,822
Restricted for expendable	6,799	5,240
Unrestricted	<u>(50,090)</u>	<u>(43,937)</u>
Total net position	<u>\$39,361</u>	<u>\$33,044</u>

**Discussion of Statement of Net Position**

**Current assets** decreased 5% during the year. The ending balance of \$16.1 million consists primarily of cash/cash equivalents (\$9.6 million), receivables (\$5.3 million) and other (\$1.1 million). All cash and cash equivalents are essential and completely designated for ongoing operations including capital projects. The University attempts to maximize interest earnings by investing funds in the State Investment Council and with the State of New Mexico Local Government Investment Pool. The University has abided by its short term and endowment investment policies, thereby, ensuring liquidity and safety. The University has implemented procedures to collect receivables in a timely manner and is well able to meet all its current financial obligations.

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

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

<b>Activities for the years ended June 30, 2017 and 2016 (thousands)</b>		
	<b><u>2017</u></b>	<b><u>2016</u></b>
Operating revenues:		
Tuition and fees, net	\$15,020	\$ 13,157
Grants & contracts	14,802	15,215
Sales and services / other revenue	<u>4,546</u>	<u>4,285</u>
Total operating revenues	<u>34,368</u>	<u>32,657</u>
Operating expenses:		
Instruction and general	38,202	35,142
Other operating expenses	25,901	26,938
Depreciation	<u>4,572</u>	<u>4,457</u>
Total operating expenses	<u>68,675</u>	<u>66,538</u>
Operating loss	<u>(34,307)</u>	<u>(33,881)</u>
Non-operating revenue:		
State general fund appropriations	29,372	31,565
Interest and investment income	669	497
Capital appropriations	<u>258</u>	<u>10,332</u>
Total Non-operating revenue:	<u>30,299</u>	<u>42,391</u>
Income/(loss) before other revenue, expenses, gains, losses	<u>(4,008)</u>	<u>8,510</u>
Interest on indebtedness	2,467	138
Other	<u>260</u>	<u>1,220</u>
Total other	<u>2,727</u>	<u>1,358</u>
(Decrease) increase in net position	<u>(1,281)</u>	<u>7,152</u>
Net position, beginning	33,045	25,278
Restatement	<u>7,597</u>	<u>615</u>
Net position, beginning as restated	<u>\$39,361</u>	<u>\$33,045</u>

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

**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 \$8.1 million during the year. Operating expenses (\$68.3 million) are subtracted from operating revenues (\$34.4 million), resulting in an "operating loss" (\$33.9 million). State general fund appropriations (\$29.4 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. "Income/ (loss) before other revenue, expenses, gains and losses" was (\$3.6 million). \$2.8 million in capital appropriations revenues (federal and state funds designated for construction projects) resulted in a decrease in net position of \$910

State general fund appropriations remained the same. The state appropriation for general funds for year ended June 30, 2017 was \$29.4 million as compared to state appropriation for year ended June 30, 2016 at \$31.6 million.

<b>Analysis of Tuition and Fees Revenue (thousands)</b>				
	<u>2017</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	
Tuition	\$12,146	\$10,681	1,465	13.7%
Fees	<u>5,842</u>	<u>4,488</u>	<u>1,354</u>	30.1%
Subtotal	17,988	15,169	2,819	18.5%
Tuition discounts/allowance	<u>(2,968)</u>	<u>(2,929)</u>	<u>(39)</u>	-.01%
Net	<u>\$15,020</u>	<u>\$12,240</u>	<u>2,780</u>	22.7%

Tuition and fees, net of discounts and allowances, increased by 22.7%; however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees, they increased by \$2.8 million, or 18.5%.

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

**CONDENSED STATEMENT OF CASH FLOWS**

Statement of Cash Flows for the years ended June 30, 2017 and 2016 (thousands)		
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net cash used by operating activities	\$( 28,443)	\$(27,079)
Net cash provided by noncapital financing activities	29,629	31,797
Net cash flow provided by investment activities	4,016	259
Net cash used by capital & related financial activity	<u>(4,554)</u>	<u>(4,856)</u>
Net increase in cash and cash equivalents	648	120
Cash and cash equivalents, beginning of year	<u>11,319</u>	<u>11,199</u>
Cash and cash equivalents, end of year	<u>\$ 11,967</u>	<u>\$ 11,319</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 \$648 Thousand net increase during the year, resulting in an ending cash balance of \$11.9 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  
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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.

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

# **BASIC FINANCIAL STATEMENTS**

NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
STATEMENT OF NET POSITION  
June 30, 2017

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
<b>ASSETS</b>			
Current Assets			
Cash in bank	\$ 9,618,518	\$ -	\$ 358,795
Petty cash	16,009	-	-
Total cash and cash equivalents	9,634,527	-	358,795
Student accounts receivable (net of an allowance of \$6,175,139)	1,898,773	-	-
Grants receivable (net of an allowance of \$411,630)	2,115,697	-	-
Other receivables	1,358,869	-	20,000
Inventories	647,819	-	-
Prepaid assets	218,987	-	3,125
Short-term investments	232,195	-	-
<b>Total current assets</b>	16,106,867	-	381,920
Noncurrent Assets			
Restricted Cash	2,333,338	-	248,858
Pledges receivable	-	-	45,000
Life insurance	-	-	81,535
Assets held by others	2,320,072	-	-
Due from component unit (net of an allowance of \$1,000,000)	455,393	-	-
Investments	4,197,166	-	7,825,712
Capital assets, net of accumulated depreciation	99,189,780	-	6,955,582
<b>Total noncurrent assets</b>	108,495,749	-	15,156,687
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	7,715,264	-	-
<b>Total assets and deferred outflows of resources</b>	\$ 132,317,880	\$ -	\$ 15,538,607
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 4,836,793	\$ -	\$ 31,529
Accrued compensated absences	767,541	-	-
Unearned revenue	4,021,478	-	-
Accrued interest payable	203,465	-	898
Bonds payable-current	1,064,623	-	-
Notes payable-current	-	-	177,937
<b>Total current liabilities</b>	10,893,900	-	210,364
Noncurrent Liabilities			
Accrued compensated absences	205,294	-	-
Due to university	-	455,386	-
Assets held for others	-	-	2,320,072
Bonds payable long-term portion	25,165,377	-	-
Notes payable-long term portion	-	-	591,294
Net pension liability	53,893,371	-	-
<b>Total non-current liabilities</b>	79,264,042	455,386	2,911,366
<b>DEFERRED INFLOWS OF RESOURCES</b>	2,799,134	-	-
<b>Total liabilities and deferred inflows of resources</b>	92,957,076	455,386	3,121,730
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	73,329,826	-	6,186,351
Restricted for			
Nonexpendable			
Restricted for scholarships and grants	9,321,891	-	4,433,937
Expendable			
Restricted for scholarships and grants	-	-	1,294,646
Loans	593,858	-	-
Capital projects	2,305,745	-	-
Debt service	3,899,878	-	-
Unrestricted	(50,090,394)	(455,386)	501,943
<b>Total net position</b>	39,360,804	(455,386)	12,416,877
<b>Total net position, liabilities and deferred inflows of resources</b>	\$ 132,317,880	\$ -	\$ 15,538,607

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**June 30, 2017**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
<b>OPERATING REVENUES</b>			
Tuition and fees	\$ 17,987,945	\$ -	\$ -
Tuition discounts and allowances	(2,967,801)	-	-
<b>Total operating revenues</b>	<b>15,020,144</b>	<b>-</b>	<b>-</b>
Federal grants and contracts	11,271,993	-	-
State and local grants and contracts	2,159,156	-	-
Private grants and contracts	1,371,104	-	-
Sales and services of auxiliary enterprises	3,688,966	-	-
Contributions	-	-	1,092,377
Other	856,917	69,793	416,255
<b>Total operating revenues</b>	<b>34,368,280</b>	<b>69,793</b>	<b>1,508,632</b>
<b>EXPENSES</b>			
Instruction and general			
Instruction	19,259,307	-	-
Academic support	2,715,053	-	-
Student services	4,400,375	-	-
Institutional support	6,850,216	-	-
Operations and maintenance support	4,977,089	-	-
	<b>38,202,040</b>	<b>-</b>	<b>-</b>
Student social/cultural development	1,450,501	-	-
Research	1,726,510	-	-
Public service	6,390,444	-	-
Student aid grants and stipends	8,722,682	-	224,380
Tuition discounts and allowances	(2,967,801)	-	-
Auxiliary enterprises	4,667,846	-	-
Athletics	3,116,074	-	-
Renewals and replacement	1,625,660	-	-
Other expenditures	-	37,054	930,970
Pension Expense	669,239	-	-
Bad Debt Expense	500,000	-	-
Depreciation	4,571,722	-	57,698
<b>Total operating expenses</b>	<b>68,674,917</b>	<b>37,054</b>	<b>1,213,048</b>
Operating Gain (loss) income	<b>\$ (34,306,637)</b>	<b>\$ 32,739</b>	<b>\$ 295,584</b>

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

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION (CONTINUED)**  
**June 30, 2017**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
Non operating revenues (expenses)			
State appropriations	\$ 29,371,697	\$ -	-
State land, permanent fund and investment income	258,065	-	-
Interest and investment income/(loss)	669,315	-	625,302
Debt forgiveness - Other	-	500,007	-
<b>Net non-operating revenues</b>	<u>30,299,077</u>	<u>500,007</u>	<u>625,302</u>
<b>(Loss) income before other revenues, expenses, gains and losses</b>	<u>(4,007,560)</u>	<u>532,746</u>	<u>920,886</u>
Other revenues (expenses) and capital items			
Capital appropriations	2,849,405	-	-
Interest on indebtedness	(382,273)	-	-
Additions to permanent endowments	-	-	347,722
Endowment expense	259,880	-	-
<b>Total other revenues (expenses) and capital items</b>	<u>2,727,012</u>	<u>-</u>	<u>347,722</u>
<b>Increase in Net Position</b>	<u>(1,280,548)</u>	<u>532,746</u>	<u>1,268,608</u>
Net Position			
Net Position - beginning of year - as previously stated	33,044,698	(988,132)	11,648,269
Restatement	7,596,654	-	(500,000)
Net Position - beginning of year, as restated	<u>40,641,352</u>	<u>(988,132)</u>	<u>11,148,269</u>
<b>Net Position, end of year</b>	<u>\$ 39,360,804</u>	<u>\$ (455,386)</u>	<u>\$ 12,416,877</u>

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

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**STATEMENT OF CASH FLOWS**  
**June 30, 2017**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
<b>Cash Flows From Operating Activities</b>			
Tuition and fees	\$ 14,319,635	\$ -	\$ -
Grants and contracts	14,143,400	-	-
Sales and services	6,678,896	-	-
Other operating receipts	780,967	69,793	950,331
Payments to employees for salaries and benefits	(37,108,259)	-	-
Payments to suppliers	(27,257,459)	(37,054)	(217,611)
Payments to others	-	-	(556,669)
<b>Net cash provided by (used in) operating activities</b>	<b>(28,442,820)</b>	<b>32,739</b>	<b>176,051</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
State appropriations	29,371,697	-	-
Land and permanent fund	258,065	-	-
Additions to endowments	-	-	347,722
Advances from primary institution	-	-	-
<b>Net cash provided by noncapital financing activities</b>	<b>29,629,762</b>	<b>-</b>	<b>347,722</b>
<b>Cash Flows From Investment Activities</b>			
Investment income	669,315	-	625,302
Sale of investments	3,086,335	-	-
Purchases of investments	-	-	(659,156)
Change in cash surrender value of life insurance	-	-	(1,301)
Endowment expense	259,880	-	-
<b>Net cash provided by (used in) investment activities</b>	<b>4,015,530</b>	<b>-</b>	<b>(35,155)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>			
State appropriations for capital projects	2,849,405	-	-
Cash paid for capital assets	(5,628,997)	-	-
Repayments of bonds and notes payable	(1,388,097)	-	(173,139)
Interest payment on bonds	(386,247)	-	-
<b>Net cash used by capital and related financing activities</b>	<b>(4,553,936)</b>	<b>-</b>	<b>(173,139)</b>
<b>Net increase in cash and cash equivalents</b>	<b>648,536</b>	<b>-</b>	<b>315,479</b>
Restricted cash, beginning of year	2,327,672	-	-
Cash and cash equivalents, beginning of year	8,991,657	-	292,174
<b>Cash and cash equivalents, end of year</b>	<b>\$ 11,967,865</b>	<b>\$ -</b>	<b>\$ 607,653</b>

**RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH USED BY OPERATING ACTIVITIES**

Operating (loss) income	\$ (34,306,637)	\$ 532,746	\$ 295,584
Adjustments to reconcile operating (loss) income to net cash used by operating activities			
Depreciation expense	4,571,722	-	57,698
Bad debt expense	500,000	-	-
Pension expense	669,239	-	-
Investment fees	-	-	45,188
Loss on sale of art	-	-	(2,885)
Donated artwork	-	-	(171,560)
Donated stock	-	-	(202,070)
Changes in assets and liabilities			
Receivables	1,221,571	-	20,000
Inventories	(67,266)	-	-
Other assets	(185,584)	-	(22)
Due from component unit	532,739	-	-
Accounts payable and accrued expenses	(1,026,291)	-	25,430
Assets held for others	(608,689)	-	108,688
Deferred revenue	408,997	-	-
Due to primary institution	-	(500,007)	-
Compensated absences	(152,621)	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (28,442,820)</b>	<b>\$ 32,739</b>	<b>\$ 176,051</b>

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

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

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

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

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

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

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 UNIVERSITY**  
**STATE OF NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

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

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

- **Highlands Stable Isotopes (HSI)**

Highlands Stable Isotopes Corporation was granted all of the powers available to it pursuant to paragraph 21-28-6 NMSA 1978 of the University – Research Park and Economic Development Act. The new corporation was filed under the New Mexico Non-profit Corporation Act and 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.

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

***Budgetary Control.*** Total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary control are as follows: (1) unrestricted and restricted expenditures are considered separately; (2) total expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; and (4) within the plant funds budget, the items of budgetary control are major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service. Budget revisions must be approved by the executive secretary of the 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, 2017, (the “schedule”) are prepared on the basis of accounting prescribed by the State of New Mexico, HED. HED requires budgets for combined revenues and expenditures, current unrestricted instruction and general, and current restricted instruction and general on a basis consistent with the financial reporting model used by the University prior to implementation of GASB Statements No. 34 and 35. Additions to capital assets and debt principal retirements are reported as expenditures on the budget basis, but not on the basis required by generally accepted accounting principles (GAAP). Depreciation expense, scholarship allowance, Perkins Loans/Endowment Scholarship and Endowment/Agency expenditures are GAAP requirements not included on the budget basis submitted to HED.

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

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

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

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

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

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**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 2017 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2017. 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 not capitalize historical treasures or works of art.

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

**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 consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

The amount of net position restricted by enabling legislation is \$0 at June 30, 2017.

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

***Unrestricted Net Position.*** Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the 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:

***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.

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 investment in the New Mexico Treasurer Local Government Investment Pool

	New Mexico Highlands University	Component Unit NMHU Foundation
Petty Cash	16,009	-
Bank Deposits	9,618,518	358,795
Cash and Equivalents	9,634,527	358,795
State Treasurer Local Government Investment Pool	232,195	-
<b>Total</b>	<b>9,866,722</b>	<b>358,795</b>

**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, 2017, \$0 of the University's bank balance of \$9,866,722 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, 2017, 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, 2017, the State Treasurer Investment Pool was paying the University .8473 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 2017. 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

**NEW MEXICO HIGHLANDS UNIVERSITY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)**

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 was 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, 2017, grants receivables consisted of the following:

Federal grants	\$ 934,855
State grants	534,257
Private grants	644,388
Other grants	<u>2,197</u>
<b>Total grants receivables</b>	<b><u>\$ 2,115,697</u></b>

**NOTE 4. OTHER RECEIVABLES**

Other Receivables as of June 30, 2017, consisted of the following:

	New Mexico Highlands University	NMHU Foundation
Perkins loan receivable	\$ 561,359	-
Due from State of New Mexico	209,123	-
Other	<u>588,387</u>	<u>20,000</u>
<b>Other Receivables</b>	<b><u>\$ 1,358,869</u></b>	<b><u>20,000</u></b>

The Due from State of New Mexico consists of amount due for capital projects as of June 30, 2017.

**NEW MEXICO HIGHLANDS UNIVERSITY**  
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**NOTE 5. INVENTORIES**

Inventories as of June 30, 2017, consisted of the following:

Bookstore	\$ 88,407
Physical Plant	196,817
Athletics	336,862
Golf course	<u>25,733</u>
<b>Total inventory</b>	<u>\$ 647,819</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.

At June 30, 2017, investments of the University and its components units are summarized as follows:

	New Mexico Highlands University	Component Unit NMHU Foundation
State land grant permanent fund	\$ -	-
Cash & money market funds	-	160,711
Mutual funds	-	214,169
Common stocks	3,084,247	4,995,782
U.S. Treasury and other federal agencies	-	695,969
U.S. Corporate bonds	1,112,919	741,103
Certificate of deposit	-	1,000,000
Other	<u>-</u>	<u>17,978</u>
<b>Total investments</b>	<u>\$ 4,197,166</u>	<u>7,825,712</u>

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

**NEW MEXICO HIGHLANDS UNIVERSITY**  
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**June 30, 2017**

**NOTE 6. INVESTMENTS (CONTINUED)**

**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.** Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2017, the Foundation had the following investments subject to interest rate risk:

	<u>Maturities</u>	<u>Fair Value</u>
US Obligations		
Treasury	06/30/18-08/15/26	\$564,997
Agency	03/07/18-10/07/21	\$130,972
US Corporate Bonds	12/11/17-07/15/22	\$741,103

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

**Foundation Credit Risk.** As of June 30, 2017, the Foundation had the following investments subject to investment rate risk:

	<u>Rating</u>	<u>Fair Value</u>
U.S. Agency Obligations	AA+	\$130,972
U.S. Corporate Bonds	AA+/BBB+	\$741,103

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

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase or decrease in temporarily restricted net assets until the amount is expended in accordance with donor specifications and in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act.

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**NOTE 6. INVESTMENTS (CONTINUED)**

(UPMIFA) (Chapter 46, Article 9A, NMSA 1978). During the current year, donor-restricted endowments had net depreciation of \$487,634 and investment income of \$129,289.

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, 2017 is \$4,433,937 at the Foundation and \$9,321,891 at the University.

**NOTE 7. FAIR VALUE OF INVESTMENTS**

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

- |         |   |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.   |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• quoted prices for similar assets or liabilities in active markets;</li><li>• quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• inputs other than quoted prices that are observable for the asset or liability;</li><li>• inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> 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, 2017.

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.

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**NOTE 7. FAIR VALUE OF INVESTMENTS (CONTINUED)**

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

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

The following table represents the fair value measurements of the assets and liabilities at June 30, 2017:

**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, 2017				
Common stock	\$ 4,995,892	4,995,892	-	-
Cash and money market funds	160,711	160,711	-	-
U.S. Treasury	695,969	695,969	-	-
Certificates of deposit	1,000,000	1,000,000	-	-
U.S. corporate bonds	741,103	741,103	-	-
Mutual funds	214,169	214,169	-	-
Other	17,978	17,978	-	-
	<u>\$ 7,825,822</u>	<u>7,825,822</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, 2017				
Common stock	\$ 3,084,247	3,084,247	-	-
U.S. corporate bonds	1,112,919	1,112,919	-	-
State Land Grant Permanent Fund	-	-	-	-
	<u>\$ 4,197,166</u>	<u>4,197,166</u>	<u>-</u>	<u>-</u>

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**NOTE 8. ASSETS HELD BY OTHERS**

As of June 30, 2017, assets held by others and restricted cash consist of the following:

	<u>University</u>	<u>Foundation</u>
Foundation Endowment	\$ 2,349,520	\$ -
Debt service reserves held in restricted cash	2,333,338	248,858
	<u>\$ 4,682,858</u>	<u>\$ 248,858</u>

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**NOTE 9. CAPITAL ASSETS**

The following is a summary of changes in capital assets during the year ended June 30, 2017

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets not being depreciated	As restated			
Land	\$ 3,016,091	263,323	-	\$ 3,279,414
Artwork	687,323	900	-	688,223
Patents	73,686	-	-	73,686
Construction-in progress	5,731,561	-	(5,731,561)	-
<b>Total capital assets not being depreciated</b>	<b>\$ 9,508,661</b>	264,223	(5,731,561)	<b>\$ 4,041,323</b>
Other capital assets:				
Land improvements	32,368,738	1,961,957		34,330,695
Buildings	126,709,411	5,731,561		132,440,972
Furniture, fixtures and equipment	13,782,075	343,352	(812,566)	13,312,861
Library materials	9,439,086	298,343	(57,480)	9,679,949
<b>Total other capital assets</b>	<b>\$ 182,299,311</b>	8,335,213	(870,046)	<b>189,764,477</b>
Less accumulated depreciation:				
Infrastructure	(14,522,189)	(1,967,206)	-	(16,489,395)
Buildings	(55,356,568)	(1,922,359)	-	(57,278,927)
Furniture, fixtures and equipment	(11,778,624)	(436,175)	812,566	(11,402,233)
Library materials	(8,386,918)	(245,982)	57,480	(8,575,420)
<b>Total accumulated depreciation</b>	<b>(90,044,299)</b>	<b>(4,571,722)</b>	870,046	<b>(93,745,975)</b>
<b>Other capital assets, net</b>	<b>92,255,012</b>	3,763,489	-	<b>96,018,501</b>
Capital assets summary				
Capital assets not being depreciated	\$ 9,508,661	264,223	(5,731,561)	4,041,323
Other capital assets	182,299,311	8,335,213	-	190,634,524
Total cost of capital assets	191,807,972	8,599,436	(5,731,561)	194,675,847
Less accumulated depreciation	(90,044,299)	(4,571,722)	(870,046)	(95,486,067)
<b>Capital assets, net</b>	<b>\$ 101,763,673</b>	<b>\$ 4,027,714</b>	<b>\$ (6,601,607)</b>	<b>\$ 99,189,780</b>

Depreciation expense for the year totaled \$4,571,722.

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**NOTE 9. CAPITAL ASSETS (CONTINUED)**

**New Mexico Highlands University Foundation, Inc.**

	Balance, June 30, 2016	Additions	Deletions	Balance, June 30, 2017
Capital assets not being depreciated:				
Land	\$2,409,841	-	-	2,409,841
Artwork	<u>3,220,215</u>	289,320	(117,761)	<u>3,391,774</u>
Total capital assets not being depreciated	<u>5,630,056</u>	289,320	(117,761)	<u>5,801,615</u>
Capital assets being depreciated:				
Buildings held for lease to university	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Less accumulated depreciation:				
Buildings	<u>(1,038,572)</u>	(57,698)	-	<u>(1,096,270)</u>
<b>Other capital assets, net</b>	<u>\$ 6,841,721</u>	231,622	(117,761)	<u>6,955,582</u>
Capital assets summary:				
Capital assets not being depreciated	5,630,056	289,320	(117,761)	5,801,615
Other capital assets, at cost	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Total cost of capital assets	7,880,293	289,320	(117,761)	8,051,852
Accumulated depreciation	<u>(1,038,572)</u>	(57,698)	-	<u>(1,096,270)</u>
Capital assets, net	<u>\$ 6,841,721</u>	231,622	(117,761)	<u>6,955,582</u>

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

**NOTE 10. ACCOUNTS PAYABLE/ACCRUED AND OTHER LIABILITIES**

The \$4,836,793 amount consists of \$2,278,199 of accounts payables and other liabilities, and \$2,558,594 of tax liabilities.

Discretely Presented Component Unit – Foundation  
 Foundation’s \$31,529 of accounts payables, and \$898 of accrued interest liabilities.

Discretely Presented Component Unit – Highlands Stable Isotopes  
 \$0 of accounts payable liabilities.

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**NOTE 11. LONG-TERM LIABILITIES**

Long-term liability activity for the University for the Year ended June 30, 2017, is as follows:

	Balance, June 30, 2016	Additions	Deletions	<b>Balance, June 30, 2017</b>	Amount Due Within One Year
A'viands note payable	\$ 306,250	-	(306,250)	-	-
Bonds payable	\$ 27,310,000	-	(1,080,000)	<b>26,230,000</b>	1,064,623
Accrued Compensated balances	\$ 1,125,456	412,275	(564,896)	<b>972,835</b>	767,541

**New Mexico Highlands University Foundation, Inc.**

Long-term liability activity for the year ended June 30, 2017 is as follows:

	Balance, June 30, 2016	Additions	Deletions	Balance, June 30, 2017	Amount Due Within One Year
Notes Payable	\$ 942,370	-	(173,139)	769,231	177,937

**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>

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**NOTE 12. BONDS PAYABLE AND NOTES PAYABLE**

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	8,365,000	1,207,379	9,572,379
Totals	<u>\$26,230,000</u>	<u>12,868,340</u>	<u>39,098,340</u>

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 2017 there were no additional draws 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>\$769,231</u>

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

<u>Year</u>	<u>Principal</u>
2018	177,937
2019	185,279
2020	192,907
2021	200,816
Thereafter	<u>12,292</u>
	<u>\$ 769,231</u>

**NOTE 13. UNEARNED REVENUE**

As of June 30, 2017, unearned revenue consisted of the following:

Grants and Contract	\$ 908,033
Tuition	1,683,557
Housing/meal Plan	92,435
Other	<u>1,337,453</u>
<b>Total</b>	<u>\$ 4,021,478</u>

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**NOTE 14. RISK MANAGEMENT**

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

1. Liabilities
  - Workers Compensation
  - General Liability
  - Law Enforcement
  - Medical Malpractice
  - Auto Liability
  - Civil Rights
  - State Unemployment Insurance
  
2. Property
  - Fine Arts
  - Blanket Property
  - Boiler & Machinery
  - Auto Physical Damage
  - Crime
  - Mexican Auto

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

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

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

**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.

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

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

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, 2017, June 30, 2016 and June 30, 2015 were \$3,085,048, \$2,967,502 and \$2,965,121, 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.

**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](http://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.

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**NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE  
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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 or 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 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.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 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. For the fiscal year ended June 30, 2017 employers contributed 13.90% 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 10.70% of their gross annual salary.

**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, 2017, New Mexico Highlands University reported a liability of \$53,893,371 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, 2016. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2016, New Mexico Highlands University's proportion was .74889 percent, which was a decrease of .0242 percent from its proportion measured as of June 30, 2015. For the year ended June 30, 2017, New Mexico Highlands University recognized pension expense of \$669,239. At June 30, 2017, 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 <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 233,809	\$ 512,594
Changes in assumptions	1,097,053	-
Net difference between projected and actual earnings on pension plan investments	3,216,986	-
Changes in proportion	-	2,286,540
Changes in proportion and differences between New Mexico Highlands University contributions and proportionate share of contributions	82,568	-
New Mexico Highlands contributions Subsequent to the measurement date	<u>3,085,048</u>	<u>-</u>
<b>Total</b>	<u>\$ 7,715,264</u>	<u>\$ 2,799,134</u>

\$7,715,264 reported as deferred outflows of resources related to pensions resulting from New Mexico Highlands University contributions subsequent to the measurement date June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:

2018	(143,527)
2019	(16,248)
2020	1,206,564
2021	784,493

**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, 2016 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, 2016. Specifically, the liabilities measured as of June 30, 2016 incorporate the following assumptions:

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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)**

1. All members with an annual salary of more than \$20,000 will contribute 10.7% during the fiscal year ending June 30, 2016 thereafter,
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before the age of 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.

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

The actuarial assumptions and methods used to determine Total Pension Liability (TPL) included in the measurement methodology are as follows:

<ul style="list-style-type: none"> <li>➤ Actuarial Cost Method</li> <li>➤ Remaining Amortization Period</li> </ul>	<p>Entry age normal            Amortized over a closed thirty year period from June 30, 2012 ending June 30, 2042</p>
<ul style="list-style-type: none"> <li>➤ Asset Valuation Method</li> <li>➤ Inflation</li> <li>➤ Salary Increases</li> </ul>	<p>Five year smoothed market            3.00%            Composed of 3.00% inflation, plus .75% productivity increase rate, plus step rate promotional increases for members with less than ten years of service</p>
<ul style="list-style-type: none"> <li>➤ Investment Rate of Return</li> <li>➤ Retirement Age</li> </ul>	<p>7.75%            Experience based table of rates based on age and service. Adopted by NMERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.</p>
<ul style="list-style-type: none"> <li>➤ Mortality</li> </ul>	<p>Healthy males: RP-2000 Combined Mortality Table with white collar adjustments, generational mortality improvements with scale BB.            Healthy females: GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with scale BB from the table's base year of 2012</p>

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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 net of fees and in the following table by asset class:

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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)**

<b>Asset Class</b>	<b>2016 Long-Term Expected Real Rate of Return</b>	<b>2015 Long-Term Expected Real Rate of Return</b>
Cash	-0.25%	0.00%
US Treasuries	0.00%	0.25%
IG Corp Credit	1.75%	1.50%
Mortgage Backed Securities	0.25%	0.50%
Core bonds	0.64%	0.73%
TIPS	0.75%	0.75%
High Yield Bonds	2.50%	2.50%
Bank Loans	2.75%	2.75%
Global Bonds (Unhedged)	-0.50%	-1.00%
Global Bonds (Hedged)	-0.38%	-0.84%
EMD External	2.75%	2.75%
EMD Local Currency	3.25%	3.50%
Large Cap Equities	4.25%	4.25%
Small/Mid Cap	4.50%	4.50%
International Equities (Unhedged)	4.75%	4.75%
International Equities (Hedged)	5.14%	5.22%
Emerging International Equities	6.25%	6.00%
Private Equity	6.25%	6.25%
Private Debt	4.75%	4.75%
Private Real Assets	4.50%	4.50%
Real Estate	3.25%	3.25%
Commodities	2.25%	2.50%
Hedge Funds	3.25%	3.50%

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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)**

**Discount rate:** A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016 and June 30, 2015. 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.

**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.

	<b>1% Decrease</b>	<b>Current Discount</b>	<b>1% Increase</b>
	<b><u>(6.75%)</u></b>	<b><u>Rate</u></b>	<b><u>(8.75%)</u></b>
		<b><u>(7.75%)</u></b>	
New Mexico Highlands University's			
Proportionate share of the net pension liability	\$ 71,380,519	\$ 53,893,371	\$ 39,383,979

**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, 2017 and 2016 which are publicly available at [www.nmerb.org](http://www.nmerb.org).

**Payables to the pension plan.** Employers contribution due at June 30, 2017 of \$418,478.

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**NOTE 16. NOTE DISCLOSURE AND RSI FOR EMPLOYER PARTICIPANTS OF THE  
EDUCATIONAL RETIREMENT BOARD'S PENSION PLAN SUMMARY OF  
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**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)	0.74889%
New Mexico Highlands University's proportionate share of the net pension liability (asset)	\$ 53,893,371
New Mexico Highlands University's covered-employee payroll	\$ 20,870,492
New Mexico Highland's University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	258%
Plan fiduciary net position as a percentage of the total pension liability	61.58%

\*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.

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

	<u>2016</u>
Contractually required contribution	\$ 3,085,048
Contributions in relation to the contractually required contribution	\$ 2,973,025
Contribution deficiency (excess)	<u>112,023</u>
New Mexico Highlands University's covered-employee payroll	\$ 20,870,492
Contributions as a percentage of covered-employee payroll	14.24%

\* 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.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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%

**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.

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**NOTE 17. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)**

**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](http://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, 2017, June 30, 2016, and June 30, 2015 were \$489,974, \$470,651, and \$477,335, 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 NMEERA 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.

**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, 2017, was \$147,600 which has been charged to expenditures.

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**NOTE 20. LEASES**

At June 30, 2017, the University had various operating lease arrangements summarized as follows:

**Operating Leases.** Rent expense for operating leases amounted to \$1,115,936 for the year ended June 30, 2017. Included in current year rent expense is a lease for a building owned by the Foundation in the amount of \$379,054. 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, 2017:

<u>Year Ending</u> <u>June 30, 2017</u>	<u>Operating</u> <u>Leases</u>
2018	\$ 993,954
2019	993,954
2020	614,666
2021	<u>366,968</u>
	<u>\$ 2,969,542</u>

**NOTE 21. COMMITMENTS AND CONTINGENCIES**

**Commitments.** At June 30, 2017, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	\$ 1,556,649
Plant Funds	\$ 275,790

**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.”

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.

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**NOTE 21. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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 2017 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, 2017, 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.

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**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 operation staff and implement a solvency plan to address the significant negative fund balance. The board reduce the staff to the primary researcher on a part-time basis for the sole purpose is to answer technical questions from potential buyers of our patented products.

From inception, the University has advanced approximately \$1,488,000 to HSI to develop its patented isotopes. For 2017, based on an evaluation of collectability of funds advanced, the University provided an allowance on its receivable balance from HSI in the amount of \$955,393. HSI recorded a gain from debt relief on the \$955,393 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, 2017, was 379,054.

The Foundation has entered into a second operating lease agreement with Highlands University for the 8<sup>th</sup> 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, 2017, was \$37,200.

**NOTE 24. PRIOR PERIOD ADJUSTMENTS**

Per the Office of the State Auditor the University has restated investments related to the Land Grant Permanent Fund (LGPF) from their financial statements reducing assets in the amount of \$3,631,168.

The University has restated Accumulated Depreciation from \$101,272,121 to \$90,044,299, to correct the balance due to formula errors in the manually maintained spreadsheet. Accordingly, beginning capital assets increased \$11,227,822. This adjustment less the reduction in LGPF investments of \$3,631,168 increased the beginning net position of the University by \$7,596,654.

The June 30, 2016 Foundation financial statements have been restated to reflect a reduction to the ending net position, from \$11,648,269 to \$11,148,269. The liability account, assets held for others, was increased to include \$500,000 for the High-Impact Educational Practices Faculty Development Program. These funds were received prior to June 30, 2016, but not recorded on the financial statements until after year end.

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**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)	(\$49,720,348)
Add: Net effect of pension adjustments	<u>48,977,241</u>
Adjusted unrestricted net position	<u>\$ 743,107</u>

**NOTE 26. RECONCILIATION OF BUDGET BASIS TO GAAP**

	<b><u>Revenues</u></b>
Budget Basis Revenue	\$ 71,698,653
Scholarship Allowance	(2,967,801)
Unbudgeted Exhibits	116,718
Loan	42,285
Endowment	1,496,490
Agency	239,702
Capital Appropriation	<u>(2,849,405)</u>
Revenue per GAAP	<u>\$ 67,776,642</u>

	<b><u>Expenditures</u></b>
Budget Basis Expenditures	\$ 68,888,423
Scholarship Allowance	(2,967,801)
Capital Expenditures	(2,849,405)
Bond Payments	(1,080,000)
Unbudgeted Exhibits	825,430
Bad Debt Expense	500,000
Endowment	259,880
Agency	239,702
Pension Expense	669,239
Depreciation Expense	<u>4,571,722</u>
Expenses per GAAP	<u>\$ 69,057,190</u>

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**NOTE 27. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 1, 2017, 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, 2017. 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 STANDARDS**

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. The University has not yet evaluated the effects of this standard.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The University has not yet evaluated the effects of this standard.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged. The University will evaluate this standard for FY 2018.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The University has not yet evaluated the effects of this standard.

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The University will evaluate this standard for FY 2018.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

<b>Year Ended June 30</b>	<b>University's Proportion of The Net Pension Liability</b>	<b>University's Proportionate Share of the Net Pension Liability</b>	<b>University's Covered Payroll</b>	<b>University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	.81023%	\$46,229,535	\$24,563,545	188%	66.54%
2016	.77310%	\$50,075,746	\$21,108,107	237%	63.97%
2017	.74889	\$53,893,371	\$20,870,492	258%	61.58

\*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\***

<b>Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions In Relation To The Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>University's Covered Payroll</b>	<b>Contributions As A Percentage of Covered Payroll</b>
2015	\$ -	\$ -	\$ -	\$ 24,563,545	-%
2016	\$ 3,486,299	\$ 3,054,737	\$ 431,552	\$ 21,108,107	14.47%
2017	\$ 3,085,048	\$ 2,973,025	\$ 112,023	\$ 20,870,492	14.24%

\*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 COMPARISON**  
**Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Beginning Fund Balance	\$ 3,429,025	\$ 15,041,288	\$ 8,405,106	\$ (6,636,182)
<b>Unrestricted &amp; Restricted Revenues</b>				
State general fund appropriations	29,370,500	29,363,900	29,387,100	(23,200)
Federal revenue sources	8,452,274	8,452,274	8,205,807	246,467
Tuition and fees	17,392,365	16,422,269	17,987,944	(1,565,675)
Land and permanent fund	220,801	256,000	258,065	(2,065)
Private grants/contracts	2,863,100	2,863,100	1,962,882	900,218
Sales & service	4,804,750	5,723,800	3,688,966	2,034,834
Government grants - state	3,784,101	3,784,101	3,965,104	(181,003)
Endowments and private gifts	-	-	500,000	(500,000)
Other	955,500	996,148	2,893,380	(1,897,232)
Capital outlay	2,260,735	9,070,345	2,849,405	6,220,940
<b>Total revenues</b>	<u>70,104,126</u>	<u>76,931,937</u>	<u>71,698,653</u>	<u>5,233,284</u>
<b>Total Unrestricted &amp; Restricted Revenues</b>	<u>73,533,151</u>	<u>91,973,225</u>	<u>80,103,759</u>	<u>(1,402,898)</u>
<b>Unrestricted &amp; Restricted Expenditures</b>				
Instruction and general	\$ 40,000,140	\$ 41,085,671	\$ 38,202,039	\$ 2,883,632
Student social and cultural	1,482,320	1,643,633	1,450,502	193,131
Research	1,645,633	1,642,245	1,726,510	(84,265)
Public service	6,323,657	6,532,026	6,390,444	141,582
Internal service departments	20,040	33,040	-	33,040
Student aid	8,724,687	8,751,333	8,567,437	183,896
Auxiliary enterprises	4,069,002	4,767,374	3,525,901	1,241,473
Intercollegiate athletics	2,838,500	3,168,985	3,116,074	52,911
Capital outlay	2,260,735	2,929,451	3,146,937	(217,486)
Renewal and replacements	1,271,022	1,396,904	1,300,306	96,598
Retirement of indebtedness	2,300,792	1,141,945	1,462,273	(320,328)
<b>Total Unrestricted &amp; Restricted Expenditures</b>	<u>70,936,528</u>	<u>73,092,607</u>	<u>68,888,423</u>	<u>(4,204,184)</u>
<b>Net Transfers</b>	-	-	-	-
Change in net assets-budgetary basis	<u>\$ (832,402)</u>	<u>\$ 3,839,330</u>	<u>\$ 2,810,230</u>	<u>\$ 9,437,468</u>
<b>Ending Fund Balance</b>	<u><u>\$ 2,596,623</u></u>	<u><u>\$ 18,880,618</u></u>	<u><u>\$ 11,215,336</u></u>	<u><u>\$ 2,801,286</u></u>

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

**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, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Tuition	\$ -	\$ -	\$ -	\$ -
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	330,421	330,421	269,818	60,603
Government grants - state	172,089	172,089	161,956	10,133
Contracts - local	-	-	-	-
Private grants/contracts	27,461	27,461	18,839	8,622
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
<b>Total revenues</b>	<u>529,971</u>	<u>529,971</u>	<u>450,613</u>	<u>79,358</u>
<b>Total unrestricted revenues</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
<b>Expenditures</b>				
Instruction	\$ 286,320	\$ 286,320	\$ 237,433	\$ 48,887
Academic support	44,154	44,154	23,610	20,544
Student services	139,479	139,479	117,851	21,628
Institutional support	26,560	26,560	50,882	(24,322)
Operation & maintenance of plant	33,458	33,458	20,837	12,621
<b>Total expenditures</b>	<u>\$ 529,971</u>	<u>\$ 529,971</u>	<u>\$ 450,613</u>	<u>\$ 79,358</u>
<b>Change in net assets-budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**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, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Beginning Fund Balance	2,663,540	4,114,899	6,424,497	2,309,598
Revenues				
Tuition	\$ 13,460,250	\$ 12,142,307	\$ 12,145,807	\$ (3,500)
Miscellaneous fees	1,644,750	1,855,793	1,662,857	192,936
Government appropriation - federal	-	-	-	-
Government appropriation - state	26,481,250	26,460,590	26,477,768	(17,178)
Government appropriation - local	-	-	-	-
Government grants - federal	-	-	67,000	(67,000)
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	220,801	256,000	258,065	(2,065)
Private gifts	-	-	-	-
Sales & service	1,500	2,582	1,507	1,075
Other sources	690,000	660,700	798,386	(137,686)
<b>Total revenues</b>	<u>42,498,551</u>	<u>41,377,972</u>	<u>41,411,390</u>	<u>(33,418)</u>
<b>Total Unrestricted Revenues</b>	<u>45,162,091</u>	<u>45,492,871</u>	<u>47,835,887</u>	<u>2,276,180</u>
Expenditures				
Instruction	\$ 20,607,634	\$ 21,761,800	\$ 19,344,016	\$ 2,417,784
Academic support	2,842,272	2,752,300	2,691,443	60,857
Student services	4,159,620	4,088,500	4,282,524	(194,024)
Institutional support	6,584,909	6,727,500	6,869,902	(142,402)
Operation & maintenance of plant	5,275,734	5,225,600	4,956,252	269,348
<b>Total expenditures</b>	<u>\$ 39,470,169</u>	<u>\$ 40,555,700</u>	<u>\$ 38,144,137</u>	<u>\$ 2,411,563</u>
<b>Net Transfers</b>	3,126,030	3,244,960	3,309,392	64,432
<b>Change in net assets-budgetary basis</b>	<u>(97,648)</u>	<u>(2,422,688)</u>	<u>(42,139)</u>	<u>(2,509,413)</u>
<b>Ending Fund Balance</b>	<u>\$ 2,565,892</u>	<u>\$ 1,692,211</u>	<u>\$ 6,382,358</u>	<u>\$ (199,815)</u>

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

NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS  
YEAR Ended June 30, 2017

Schedule 1  
Page 1 of 3

		Southwest Capital Bank Las Vegas, NM	Wells Fargo Albuquerque NM	Community 1st Bank Las Vegas, NM	State Treasurer Santa Fe, NM	Total	
Pledged Collateral							
Funds on deposit	Safekeeping Location	Type of Security					
Demand deposits		\$ 378,354	\$ 978,709	\$ 8,261,471	\$ 232,195	\$ 9,850,729	
FDIC insurance							
Demand deposits		(250,000)	(250,000)	(250,000)	-	(750,000)	
Total uninsured public funds		\$ 128,354	\$ 728,709	\$ 8,011,471	\$ 232,195	\$ 9,100,729	
Collateral		50%	50%	102%			
Requirement per section 6-10-17 NMSA		\$ 64,177	\$ 364,355	\$ 8,171,700	\$ -	\$ 7,881,643	
Pledged collateral							
	Federal Reserve Bank	FNMA ARM CUSIP #31416BLS5		25,259		25,259	
	Federal Home Loan Bank	FNMA CUSIP #31400H7K3		216,834		216,834	
	Federal Home Loan Bank	ALAMOGORDO NM MUN SCH NO1 CUSIP #011464FQ2		225,000		225,000	
	Federal Home Loan Bank	ALAMOGORDO NM MUN SCH NO1 CUSIP #011464FR0		430,000		430,000	
	Federal Home Loan Bank	GE ELEC. CAP. CORP. FLOATER NOTE CUSIP #36966THT2		1,000,000		1,000,000	
	Federal Home Loan Bank	GE ELEC. CAP. FLOATER NOTE CUSIP #36966TJA1		1,000,000		1,000,000	
	Federal Home Loan Bank	LAS VEGAS, NM CITY SCHOOL DIST. #2 CUSIP #51778FCU1		1,240,000		1,240,000	
	Federal Home Loan Bank	SOUTHERN SANDOVAL NM ARROYO CUSIP #843789FC7		450,000		450,000	
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7		1,688,707		1,688,707	
	Federal Home Loan Bank of Dallas	FHLB-LC3649000101 LOC 2696000767	1,100,000			1,100,000	
	Federal Home Loan Bank	FARMINGTON NM MUN SHC DIST NO5 CUSIP #311441JA8		250,000		250,000	
	Federal Home Loan Bank	FARMINGTON NM MUN SCH DIST NO5 CUSIP #311441HZ5		200,000		200,000	
	Federal Home Loan Bank	GNMA-II CUSIP #36202FX68		602,433		602,433	
	Federal Home Loan Bank	SOUTHERN SANDOVAL NM FLOOD CTL CUSIP #843789EG9		100,000		100,000	
	Federal Home Loan Bank	U.S. TREASURY NOTE CUSIP #912828C24		1,000,000		1,000,000	
	Federal Home Loan Bank	GNMA-I CUSIP #3620AR4Z1		269,200		269,200	
	Federal Home Loan Bank	FHLB FIXED RATE NOTE CUSIP #3130A0JR2		1,000,000		1,000,000	
	Federal Home Loan Bank	FHLB FIXED RATE NOTE CUSIP #3130A3UQ5		1,000,000		1,000,000	
	Federal Home Loan Bank	FHLB FIXED RATE NOTE CUSIP #3130A8QS5		1,000,000		1,000,000	
	Federal Home Loan Bank	FNMA CUSIP #31418ARF7		735,657		735,657	
	Federal Home Loan Bank	FNMA CUSIP #31410LGN6		785,928		785,928	
	Bank of New York Mellon	FNMA FNMS CUSIP #3138M9CV1		736,620		736,620	
	Federal Home Loan Bank	FNMA CUSIP #31393CDJ9		123,525		123,525	
			1,100,000	2,425,327	11,653,835	-	15,179,161
Deficiency / (Excess) of pledge Collateral over the required amount		(1,035,823)	(2,060,972)	(3,482,134)	-	(6,578,929)	

NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)  
Year Ended June 30, 2017

Schedule 1  
Page 2 of 3

<u>Name of Bank</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Southwest Capital Bank - Las Vegas			
Accounts payable account	Interest bearing checking	\$ 706,620	(73,785)
Payroll account	Interest bearing checking	442,231	390,325
University wire-transfer account	Interest bearing checking	5,441	5,441
Cash receipts account	Interest bearing checking	27,878	35,442
Cashier's credit card account	Interest bearing checking	15,246	19,580
Direct lending account	Interest bearing checking	1,050	1,050
<b>Total</b>		<u>1,198,466</u>	<u>378,053</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Non-interest bearing checking	\$ 18,112	18,112
Rio credit card	Non-interest bearing checking	25,929	25,929
NMHU business	Non-interest bearing checking	503,958	503,958
Online payments	Non-interest bearing checking	368,995	380,490
NMHU golf course	Non-interest bearing checking	23,073	23,073
Farmington	Non-interest bearing checking	17,988	17,988
NMHU savings	Savings	9,159	9,159
<b>Total</b>		<u>967,214</u>	<u>978,709</u>
Community 1st Bank - Las Vegas			
NMHU golf course	Non-interest bearing checking	27,186	27,186
Capital outlay	Money market account	5,662,942	5,662,942
NMHU savings	Savings	2,571,343	2,571,343
<b>Total</b>		<u>8,261,471</u>	<u>8,261,471</u>
State Treasurer's Office			
Local government investments	Pooled	232,195	232,195
Cashier's cash			
		<u>16,009</u>	<u>16,009</u>
<b>Total cash and cash equivalents</b>		<u>\$ 10,659,346</u>	<u>9,866,437</u>

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)**  
**Year Ended June 30, 2017**

**Schedule 1**  
**Page 3 of 3**

As of June 30, 2017 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	\$ 1,648,043
Reconciling items	<u>(800,000)</u>
Cash and cash equivalents recorded in financial statements	<u>\$ 848,043</u>
Cash and cash equivalents balance	\$ 848,043
FDIC Insurance	<u>(250,000)</u>
Cash and cash equivalents recorded in financial statements	<u>\$ 598,043</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, 2017, \$598,043 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, 2017

<u>Projection Description</u>		<u>Authority</u>		<u>Appropriation</u>		<u>Total</u>
		<u>Chapter</u>	<u>Laws</u>	<u>Period</u>	<u>Expiration</u>	<u>Appropriation</u>
<b>General Obligation Revenue Bond</b>						
General Obligation 14-1303	Critical Infrastructure Improvements	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 A14-1291	Library	Ch 65 Sec 10/B/2	2014	2015	6/30/2018	114,383
General Obligation A16-A5129	NMHU Rodgers Admin Bldg Renovate	Ch 82 Sec 10/C/5	2016	2016	TBA	4,500,000
<b>Total General Obligation Revenue Bonds</b>						<u>\$ 15,614,383</u>
<b>Severance Tax Bond Proceeds</b>						
Severance Tax 13A-1892	Athletic Facilities Improve	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 Improve	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 Improve	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 Improve	Ch 3 Sec 36/4	2015	2015	6/30/2019	20,000
Severance Tax 16A-A2600	NMHU Athletics Department	Ch 81 Sec 27	2016	2016	6/30/2020	111,000
<b>Total Severance Tax Bonds</b>						<u>\$ 4,031,000</u>
<b>Total Capital Appropriations</b>						<u>\$ 19,645,383</u>

NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL  
AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS (CONTINUED)  
Year Ended June 30, 2017

	Bonds Sold To Date	Bonds Unsold	Amount Available	Prior Year Expenditures	Current Year Expenditures	Art in Public Places	Encumbered Amount	Current Year Revision Amount	Unencumbered Balance
\$	5,000,000	-	5,000,000	3,928,091	828,248	-	-	-	243,661
	6,000,000	-	6,000,000	5,123,153	55,897	60,000	-	-	760,950
	114,383	-	114,383	67,933	20,988	-	-	-	25,462
	4,500,000	-	4,500,000	-	1,700	-	133,318	-	4,364,982
	15,614,383	-	15,614,383	9,119,177	906,833	60,000	133,318	0	5,395,055
	165,000	-	165,000	24,054	0	1,650	-	0	0
	2,300,000	-	2,300,000	874,914	1,379,481	-	-	-	45,605
	265,000	-	265,000	106,932	0	2,650	-	-	155,418
	140,000	-	140,000	49,736	90,264	-	-	-	0
	1,000,000	-	1,000,000	134,092	429,069	-	-	-	61,486
	30,000	-	30,000	-	30,000	-	-	-	0
	20,000	-	20,000	20,000	-	-	-	-	0
	111,000	-	111,000	-	13,758	-	-	-	-
\$	4,031,000	\$ -	4,031,000	\$ 1,209,728	\$ 1,942,572	\$ 4,300	\$ -	\$ -	262,509
\$	19,645,383	\$ -	19,645,383	\$ 10,328,905	\$ 2,849,405	\$ 64,300	\$ 133,318	\$ -	5,657,564

Joint Powers Agreement

<u>Participants</u>	<u>Responsible operating party</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Award</u>	<u>Portion \$ applicable to New Mexico Highlands University</u>	<u>Amount Contributed (FY17)</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>	<u>Description</u>
City of Las Vegas Police Department	NMHU	6/28/2013	ongoing	\$ -	\$ -	\$ -	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 activit and Police Training with he jurisdictions of the parties.
New Mexico State Investment Council	NMHU	2/2/2017	ongoing	Undetermined	Undetermined	\$ 543,707.11	NMHU	Steven Moise	NMHU appoints the SIC as the fiduciary authorized to invest long term reserves of NMHU and all investment income thereon (collectively the "Long-Term Rerserves"), through SIC Long-Term Pooled Investment Funds (the "Pooled Investment Funds"). All right, title and interest in and to the Long-Term Reserves (including, without limitation, all interest earnings) will at all times be vest in NMHU.

NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2017

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	-	10,750.00
Mathematical and Physical Sciences	47.049	DMR-1523611	-	635,068.00
Geosciences	47.050	EAR-1023278-002	-	10,331.00
Geosciences	47.050	EAR-1321763	-	48,241.00
Geosciences	47.050	EAR-1337254	-	1,303.00
Geosciences	47.050	EAR-1623807	-	156,774.00
Education and Human Resources	47.076	DUE-1154471	-	77,537.00
Passed Through University of New Mexico				
Office of Cyberinfrastructure	47.080	063026-8744	-	34,698.00
Office of International Integrative Activities	47.079	IIA-1423396	-	30,706.00
<b>Total National Science Foundation</b>			0.00	1,005,408.00
Department of Health and Human Services National Institutes of Health				
Passed Through New Mexico State University				
Biomedical Research and Research Training	93.859	Q01677	-	-
<b>Total Department of Health and Human Services - National Institutes of Health</b>			-	221,445.00
Department of Defense U.S. Army Material Command				
Basic Scientific Research	12.431	W911NF-15-1-0009	-	75,471.00
<b>Total Department of Defense US Army Material Command</b>			-	-
<b>Total Research and Development Cluster</b>			0.00	1,302,324.00
United States Department of Education				
Student Financial Aid Cluster				
Federal Work-Study Program - Office of Student Financial Assistance Programs	84.033	P033A132646	-	343,917.00
Federal PELL Grant Program - Office of Student Financial Assistance Programs	84.063	P063P130275	-	4,953,387.00
Federal Supplemental Educational Opportunity Grants - Office of Student Financial Assistance Programs	84.007	P007A132646	-	170,279.00
TEACH Grant Programs - Office of Student Financial Assistance Programs	84.379	P379T140275	-	71,955.00
Federal Direct Student Loans - Office of Student Financial Assistance Programs	84.268	P268K150275	-	11,712,627.00
Federal Perkins Loans - Office of Student Financial Assistance Programs	84.038	000759	-	11,500.00
<b>Total Student Financial Aid Cluster - US Department of Education</b>			0.00	17,263,665.00
United States Department of Education				
Higher Education Institutional Aid	84.031C	P031C110033	-	49,048.00
Provided to Luna Community College				
Higher Education Institutional Aid	84.031C	P0161468	-	12,174.00
Higher Education Institutional Aid	84.031C	P013M140020	-	547,859.00
Higher Education Institutional Aid	84.031C	P031C160248	-	97,726.00
Minority Science and Engineering Improvement	84.120A	P120A160011	-	9,203.00
English Language Acquisition State Grants - Office of Elementary and Secondary Education	84.365Z	T365Z120020	-	455,904.00
Passed Through University of New Mexico - Taos				
Higher Education Institutional Aid	84.031S	P031S140070	-	205,221.00
Advanced Placement Program	84.330B	15-924-00279	-	132,575.00
<b>Total US Department of Education</b>			0.00	18,773,375.00

NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF EXPEDITURES 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	-	1,895.00
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22463	-	90,326.00
Passed Through University of New Mexico - Taos				
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22086	-	62,690.00
Passed Through New Mexico State University				
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	Q01512/SUB	-	5,232.00
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	Q01821	-	57,158.00
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	14-DG-11031600-047	-	35,030.00
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	15-DG-11031600-074	-	49,607.00
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	16-DG-11031600-007	-	139,745.00
Passed Through Northern Arizona University				
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	14-DG-11031600-082	-	5,487.00
<b>Total United States Department of Agriculture</b>			<u>0.00</u>	<u>447,170.00</u>
Department of Justice Office on Violence Against Women				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2014-WA-AX-0003	-	70,758.00
<b>Total Department of Justice Violence Against Women Office</b>				
Department of Health and Human Services				
Passed Through New Mexico Department of Health				
Injury Prevention and Control Research and State and Community Based Programs	93.136	17/665.0300.20185	-	8,652.00
Passed Through New Mexico Children's Youth and Families Department				
Foster Care Title IV-E-Administration for Children and Families	93.658	15-17849	-	1,532,186.00
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	-	26,299.00
<b>Total US Department of Health and Human Services</b>			<u>0.00</u>	<u>1,567,137.00</u>
Corporation of National and Community Service				
Passed Through New Mexico Department of Children Youth and Families				
AmeriCorps Recover	94.006	15-631-8001-00056E	-	39,368.00
AmeriCorps Recover	94.006	16-631-7003-00063E	-	93,167.00
<b>Total Corporation for National and Community Service</b>			<u>0.00</u>	<u>132,535.00</u>
<b>Total Federal Awards Expended</b>			<u>\$ -</u>	<u>\$ 22,293,299.00</u>

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATE OF NEW MEXICO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**June 30, 2017**

**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 2017 or accrued revenue at June 30, 2017. 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, 2017 were \$515,311.

**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.

## **OTHER REPORTS**



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

Board of Regents  
New Mexico Highlands University  
and  
Mr. Wayne Johnson  
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, the aggregate discretely presented component units of the New Mexico Highlands University (the University), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 1, 2017. 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, 2017 and the related notes and have issued our report thereon dated November 1, 2017.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 2017-001 which we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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 item 2016-003.

### **The University's Response to Findings**

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

### **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.

*Ricci & Company, LLC*

Albuquerque, New Mexico  
November 1, 2017



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

**INDEPENDENT AUDITOR'S REPORT**

Board of Regents  
New Mexico Highlands University  
and  
Mr. Wayne Johnson  
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, 2017. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

### **Opinion on Each Major Federal Program**

In our opinion the University complied, in all material respects, with the types of compliance requirements referred to above that could have a material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance which we consider to be a material weakness. However other, material weaknesses may exist that have not been identified.

## **The University's Responses to Findings**

The University's responses to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

*Ricci & Company, LLC*

Albuquerque, New Mexico  
November 1, 2017

**NEW MEXICO HIGHLAND UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2017**

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

A. Material weaknesses identified  Yes  No

B. Significant deficiencies identified that are not considered to be material weaknesses?  Yes  No

Noncompliance material to the financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

A. Material weaknesses identified?  Yes  No

B. Significant deficiencies identified that are not considered to be material weaknesses?  Yes  No

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?  Yes  No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Center
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  No

**NEW MEXICO HIGHLAND UNIVERSITY  
STATE OF NEW MEXICO  
SUMMARY OF AUDIT FINDINGS  
Year Ended June 30, 2017**

**PRIOR YEAR FINDINGS**

*Financial Statement Audit*

2015-002	University Policies Not Approved (Significant Deficiency)	Repeated and modified
2015-004	Capital Asset Accounting (Material Weakness)	Repeated and modified
	Component Unit (NM Highlands Foundation) (Other Non	
2015-007	Compliance)	Cleared
	Component Unit (Highlands Stable Isotopes Corporation) (Material	
2015-009	Noncompliance)	Repeated and modified
2016-001	Segregation of Duties Over Payroll (Significant Deficiency)	Cleared
2016-004	Late Audit (Other Noncompliance	Cleared
2014-010	Suspension and Debarment (Significant Deficiency)	Cleared

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

2015-001	Insufficient Collateral (Other Noncompliance)	Cleared
2016-002	Gas Cards and University -Owned Vehicles (Findings that do not rise to the Level of Significant Deficiency/Other Noncompliance)	Cleared
2016-003	Budget (Other Noncompliance)	Repeated and modified
2016-004	Late Audit (Other Noncompliance)	Cleared

**CURRENT YEAR FINDINGS**

*Financial Statement Audit*

2015-002 UNIVERSITY POLICIES NOT APPROVED (SIGNIFICANT DEFICIENCY) (Repeated and Modified)

2015-004 CAPITAL ASSET ACCOUNTING (MATERIAL WEAKNESS) (Repeated and Modified)

2017-001 SEGREGATION OF DUTIES OVER CASH RECEIPTS (SIGNIFICANT DEFICIENCY)

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

2016-003 BUDGET (OTHER NONCOMPLIANCE) (Repeated and Modified)

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2017**

**FINANCIAL STATEMENT FINDINGS**

**2015-002 UNIVERSITY POLICIES NOT APPROVED (SIGNIFICANT DEFICIENCY) (Repeated and Modified)**

**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 or FY17.

It has also been identified that there is a lack of policies and procedures over the financial close and reporting process at the University which resulted in an inefficient audit as well as challenges obtaining data and support for certain balances.

NMHU showed significant progress in implementing the corrective action plan from the prior year, but did not get approval prior to the audit.

**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, including the financial close and reporting process, of the University and revisions recommended as appropriate. The revised policies and procedures should be approved by responsible officials and updated periodically as needed.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2015-002 UNIVERSITY POLICIES NOT APPROVED (SIGNIFICANT DEFICIENCY) (Repeated and Modified) (Continued)**

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

The University concurs with this finding. The University's new comptroller started in March of 2017, shortly after our new comptroller started, the business office had additional staff turnover resulting in significant knowledge gap in the area of student account receivables. This deficiency required staff to redirect their efforts on addressing the student concerns, setup new tuition and fee schedules in our Banner system and hire and train new staff. Therefore, these situations did not allow the Business Office's staff to update, vet and present updated and accurate policies and procedures to the Board of Regents for their approval prior to the end of the fiscal year. On the positive side, there have been significant improvements on the University's policies and procedures and are currently going through its campus vetting process. Additional procedures will be added to address the concerns of fiscal year 2017 end of year closing procedures. The comptroller will be responsible for completing the document during the 2<sup>nd</sup> quarter of FY18 and will be presenting the final policies to The Board of Regents during the first quarter of 2018.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The University concurs and recognizes the significance of a repeat finding and will ensure this is addressed in fiscal year 2018. We expect to resolve this finding by April 2018.

- Timeline to correct: All internal controls will be reviewed and updated by June 30, 2018.
- Responsible Official: Comptroller

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2015-004 CAPITAL ASSET ACCOUNTING (MATERIAL WEAKNESS) (Repeated and Modified)**

**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.
- 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 recorded.
- The University was not calculating depreciation expense or accumulated depreciation accurately resulting in Capital Assets being reported in the previous year at an incorrect amount. A decrease in \$11,227,822 was recorded as a prior period adjustment to properly report Capital Assets.

NMHU showed significant progress in implementing the corrective action plan from the prior year, and will continue to implement new processes and procedures over fixed assets to correct the issues.

**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, and Inadequate review of calculations and supporting documentation could result in misstatements.

**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.

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

The University concurs with the finding. During FY17, there was progress made on resolving the finding. The University utilizes the "Fixed Assets" Module included in Banner. Currently, all equipment is stored in the system and identifiable by an inventory tag number. However, the portion of the system automatically depreciates Capital Assets has not been thoroughly setup, tested and implemented. The Director of Purchasing and Central Receiving will be responsible for all Capital Assets being recorded and automatically depreciated in Banner by March of 2018. This will allow NMHU to take advantage of a fully automated "Fixed Assets" system, thus allowing for reductions in calculation errors, instantaneous reporting and tracking of fixed asset throughout the fiscal year versus the current end of year updating a single spreadsheet from numerous Banner reports. All corrects should be in place by June of 2018.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2015-004 CAPITAL ASSET ACCOUNTING (MATERIAL WEAKNESS) (Repeated and Modified)  
(Continued)**

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The University concurs and recognizes the significance of a repeat finding and will ensure this is addressed in fiscal year 2018. We expect to resolve this finding by April 2018.

- Timeline to correct: All internal controls will be reviewed and updated by June 30, 2018.
- Responsible Official: Comptroller and, the Director of Purchasing and Central Receiving.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2017-001 SEGREGATION OF DUTIES OVER CASH RECEIPTS (SIGNIFICANT DEFICIENCY)**

**CONDITION**

Based on our understanding of internal controls we observed that the cashier's office personnel process cash receipts almost entirely without review, and do not have a process for a second party to reconcile the drawers to the supporting documentation.

**CRITERIA**

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

**CAUSE**

Lack of policies or procedures over the cash receipts process.

**EFFECT**

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

**RECOMMENDATION**

We recommend that management review the cash receipts process from start to finish and determine where potential vulnerabilities in internal controls exist, and a process to rectify them. An appropriate level of review prior to final processing should be included in this process.

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

The Student Account Receivable (SAR) Manager position has been filled and we have completed training the SAR/Cashier Specialist as cashier back up to fix the segregation of duties. Additionally, we have completed a cashier's training manual, office procedures and have thoroughly reviewed handling and safeguarding of cash and cash equivalents. The Policy manual for the Cashier's Office in the final stages of revisions with the Business Office staff, and confirmation from the Faculty, Staff and Student Senate will be forthcoming with a target date of April 30, 2018 to be approved by The Board of Regents.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

Due to the retirement of the Student Account Receivable Manager and turnover of 3 staff employees we concur with the finding of segregation of duties. We now have the properly trained staff and currently working to finalize the Cashier's Office policies, and corresponding procedures to be approved by the Board of Regents by April 30, 2018. The Comptroller views this area as key

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2017-001 SEGREGATION OF DUTIES OVER CASH RECEIPTS (SIGNIFICANT DEFICIENCY) (CONTINUED)**

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN  
(CONTINUED)**

and of high importance and has worked with the staff since last March to bring this office into compliance. We have fixed the segregation of duties, as the Student Account Receivable (SAR) Manager is experienced and has already brought knowledge and stability to the department. Together they are working to create a sound and consistent structure for University.

**POINT OF CONTACT**

Comptroller and Student Accounts Receivable Manager.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC**

**2016-003 BUDGET (OTHER NONCOMPLIANCE) (Repeated and Modified)**

**CONDITION**

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

- Unrestricted Current Funds – Research \$ 84,265
- Unrestricted Current Funds – Capital Outlay \$217,486
- Unrestricted Current Funds – Retirement of indebtedness \$320,328
- Unrestricted Current Funds – Student Services \$194,024
- Unrestricted Current Funds – Institutional Support \$142,402
- Restricted Current Funds – Institutional Support \$ 24,322

In addition, the internal service fund overbilled the user departments resulting in a credit balance in the internal service funds expenditure account. The balance was allocated to the Instructional account.

NMHU showed significant progress in implementing the corrective action plan from the prior year, and will continue to implement new processes and procedures over the budget process to correct the issues.

**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, and demonstrates a failure to carry out fiduciary responsibility.

**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.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (CONTINUED)**

**2016-003 BUDGET (OTHER NONCOMPLIANCE) (Repeated and Modified) (Continued)**

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

The comptroller is responsible for the continued efforts to ensure that budget categories are not overspent. We have identified a few areas which are a result of overspending:

1. The restricted funds manager did not estimate appropriately. The institution will implement a secondary review of submitted end of year budget adjustments.
2. The second issue has been the various entries that are made after the fiscal year ends, when there is no longer an opportunity to make budgetary transfers. The university will implement a better procedural review of all end of year for critical or large postings to the general ledger.
3. We had our budget director retire at the end of April and this person did not provide adequate oversight on fiscal year 2017 budgets or provide any meaningful input during the submission of end of year budget documents. Therefore, he left this responsibility on others within the Business Office and the Vice President of Finance's office to address.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The University concurs and recognizes the significance of a repeat finding and will ensure this is addressed in fiscal year 2018. We are in the process of hiring a new budget director and whose scope of work will be to work closely with the Business Office and the Vice President for Finance and Administration's Office and others to ensure adequate reporting.

- Timeline to correct: All internal controls will be reviewed and updated by June 30, 2018.
- Responsible Official: Comptroller

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SUMMARY OF AUDIT FINDINGS – COMPONENT UNITS  
Year ended June 30, 2017**

**Prior Year Findings Description**

New Mexico Highlands University Foundation, Inc.

2015-002 FOUNDATION BUDGET (OTHER NONCOMPLIANCE) – UPDATED AND REPEATED

Highlands Stable Isotopes, Inc.

2015-009 TAX STATUS (MATERIAL NONCOMPLIANCE) (Repeated and Modified)

**Current Year Findings Description**

New Mexico Highlands University Foundation, Inc.

2017-001 RESTRICTED ACCOUNTS (OTHER NONCOMPLIANCE)

2017-002 INTERNAL CONTROLS (OTHER NONCOMPLIANCE)

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – COMPONENT UNITS  
June 30, 2017**

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**

**FINANCIAL STATEMENT FINDINGS**

**2015-002 FOUNDATION BUDGET (OTHER NONCOMPLIANCE) (Repeated and Modified)**

**CONDITION**

The Foundation is not currently preparing an annual budget by projecting revenues that it will receive, and expenses that it is responsible for in the coming year and submitting them to the Board for approval prior to the start of the new fiscal year. Such approved budgets serve 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.

The Foundation showed significant progress in implementing the corrective action plan from the prior year, and will continue to implement new processes and procedures over the budget process to correct the issues.

**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 submitted to the Board for approval prior to the start of the fiscal year. The approved budget serves as authorization for the Executive Director to expend budget amounts.

**EFFECT**

The expenditures are not authorized by the budget and therefore, the Foundation is not in compliance with its Bylaws.

**CAUSE**

The revenue and expenses that the Foundation is responsible for are not complex. The 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 prior to year-end.

**RECOMMENDATION**

We recommend that the budget process, as described in the Bylaws, be instituted on an annual basis and submitted to the Board prior to the start of the fiscal year.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The NMHU Foundation recognizes this finding and has corrected this finding for FY18. The NMHU Foundation Board of Directors passed a FY18 budget at its May 24, 2017 meeting.

- Timeline to correct: Budget finding has been resolved as of the date of this report.
- Responsible Official: Executive Director/VP of Advancement.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – COMPONENT UNITS  
June 30, 2017**

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**

**2017-001 RESTRICTED ACCOUNTS (OTHER NONCOMPLIANCE)**

**CONDITION**

Per our cash testwork, we noted that the restricted and unrestricted bank accounts were co-mingled up until October 2016, when NMHUF began creating separate bank accounts. Process was completed in January 2017. In addition, the Foundation charges a 1% administrative fee for servicing the endowed funds. We noted the fee is calculated correctly in total, but not allocated correctly to each fund.

**CRITERIA**

Accounting standards require nonprofit organizations to separate permanently restricted, temporarily restricted and unrestricted funds, determined by either the absence or the existence of donor-imposed restrictions on the use of funds.

**CAUSE**

Fund balance could be misstated if funds are not allocated properly to permanently restricted, temporarily restricted and unrestricted accounts.

**EFFECT**

By co-mingling unrestricted, restricted and endowed accounts, the potential error of misclassifying those funds are high.

**RECOMMENDATION**

We recommend all unrestricted, restricted and endowed funds remain in separate accounts for easy classification purposes and recording the 1% administrative fee by fund in the Foundation's unitization process.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The NMHU Foundation concurs with this finding, and addressed it in January 2017, previously commingled unrestricted, restricted, and endowed funds were segregated into separate accounts, with procedures established to prevent reoccurrence. As to the utilization of the 1% management fee, the unitization takes place in manually created records and this will be changed so that the correct unitization is found in all records going forward.

- Timeline to correct: Co-mingled accounts and administrative fee finding has been resolved as of the date of this report.
- Responsible Official: Executive Director/VP of Advancement

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – COMPONENT UNITS  
June 30, 2017**

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**

**2017-002 INTERNAL CONTROLS (OTHER NONCOMPLIANCE)**

**CONDITION**

During our internal control review, we noted the following issues of deficiencies in the design of controls: 1 - recording donated stock, net of management fees, 2 - annual art inventory not being reviewed and initialed, 3 - Journal entries entered prior to review, 4 - Lease agreement not signed and no current year payment amount documented, 5 - cleaning up old general ledger accounts on a regular basis, 6 - no process for reviewing stale dated checks, and 7 - investment review done quarterly, instead of monthly.

**CRITERIA**

It is the responsibility of management to design and follow good internal controls that provide reasonable assurance regarding the reliability of the financial statements.

**CAUSE**

Due to the changes in management personnel, the Foundation has operated with different individuals in most recent years. Current management is working on developing better processes but has not been able to complete by year end.

**EFFECT**

Unintentional or intentional errors could exist in the financial records without detection by management.

**RECOMMENDATION**

We recommend reviewing all policies and monitoring the Foundation's compliance on an annual basis.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The NMHU Foundation concurs with this finding, will immediately implement or research the procedures suggested by the auditor to address outstanding issues, and believes that appropriate policies and procedures are in place to prevent reoccurrence.

- Timeline to correct: All internal controls will be reviewed and updated by June 30, 2018.
- Responsible Official: Executive Director/VP of Advancement.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – COMPONENT UNITS (CONTINUED)  
June 30, 2017**

**HIGHLANDS STABLE ISOTOPES CORPORATION**

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

**2015-009 TAX STATUS (MATERIAL NONCOMPLIANCE) (Repeated and Modified)**

**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 significant progress in relation to filing tax returns for the Corporation and 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)**

**June 30, 2017**

**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 did file the appropriate forms before the end of the fiscal year. However, the University nor HSI have been granted this 501(c)(3). The University concurs and recognizes the significance and will continue to work with the IRS on this process. The paper work is expected to be completed by June of 2018.

- Timeline to correct: Will be reviewed and updated by June 30, 2018.
- Responsible Official: VP for Finance and Administration.

**NEW MEXICO HIGHLANDS UNIVERSITY  
STATE OF NEW MEXICO  
EXIT CONFERENCE  
JUNE 30, 2017**

An exit conference was held on October 30, 2017, with the following in attendance:

**New Mexico Highlands University:**

Dr. Sam Minner	President, Highlands University
Max Baca	Vice President for Finance and Administration
Frank Marchi	Member, Board of Regents Highlands University
Paula M. Escudero	Director of Finance/Comptroller
Dominic Chavez	Business Office
Gayle Martinez	Business Office
Eleanor Duran	Business Office
Andrea Medina	Business Office
Adam Bustos	Director of Purchasing
Susan Chavez	Financial Aid Director
Denise Montoya	HR Director
Elizabeth Maestas	Human Resources, Payroll
Anthony Trujillo	Human Resources, Payroll
Terri Law	VP NMHU Foundation
Louise c de Baca	Foundation Office

**Ricci & Company LLC Personnel:**

Wayne Brown	CPA, Audit Partner
Mark Santiago	CPA, Audit Manager