

# STATE OF NEW MEXICO



# NEW MEXICO HIGHLANDS UNIVERSITY



# FINANCIAL STATEMENTS

June 30, 2006



[www.nmhu.edu](http://www.nmhu.edu)  
New Mexico Highlands University  
PO Box 9000  
Las Vegas, NM 87701

STATE OF NEW  
MEXICO  
NEW MEXICO  
HIGHLANDS  
UNIVERSITY

FINANCIAL STATEMENTS  
JUNE 30, 2006

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY

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

**Official Roster**

**June 30, 2006**

**Board of Regents**

<b>Name</b>	<b>Title</b>
Javier M. Gonzales	Chair
Walter Adams	Secretary/Treasurer
John Loehr	Member
Ricky Serna	Member
Rosanna Vazquez	Member

**Administrative Officials**

Manny M. Aragon	President
Placido Gomez	Provost
Manu Patel	Interim Vice President Finance & Administrative Service
Grace Montoya	Controller

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

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Gerald T. Kardas, CPA  
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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the State of New Mexico, New Mexico Highlands University (the "University") as of and for the year ended June 30, 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. We have also audited the budget comparisons presented as supplementary information as listed in the table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the basic financial statements of the University and its discretely presented component units are intended to present the net assets, changes in net assets and cash flows, where applicable, of only that portion of the State of New Mexico that is attributable to the transactions of the University and its discretely presented component units. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2006, and the respective changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly in all material respects, the budgetary comparison of the University's accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2006 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be considered in assessing the results of our audit.

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

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

*Kardas, Abeyta & Weiner, P.C.*

October 12, 2006

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

**Introduction**

The management of New Mexico Highlands University (University) herewith presents its financial statements and required supplementary information for the year ended 30 June 2006 (FY06). The University is required to conform with the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, which applies the standards to public colleges and universities. A new requirement under GASB 34/35 is the presentation of **all** of the University's assets, liabilities, net assets and financial activities in one column, as opposed to fund type. Offsetting amounts owed by one fund to another, inter-fund transfers, and other "duplications" have been eliminated. Also, applying the required **full accrual basis** of accounting, the fiscal year's revenues are recorded regardless of when the corresponding cash has been received, and expenses are recorded regardless of when corresponding bills have been paid.

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

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

**In summary**, management is pleased that during FY06, the University has made significant progress in its overall financial position and availability of working capital. For example, net assets increased 12.7 percent from \$56.7 million to \$63.8 million, and cash/cash equivalents increased by 36.5 percent from \$14.8 million to \$20.2 million. The enclosed financial statements and footnotes, in conjunction with budgetary projections for FY06, show that the University has laid the financial foundation and prerequisites to carry out the ambitious goals of the new Strategic Plan for 2003 – 2008. (The Strategic Plan is available to the public on the University's web site: [www.nmhu.edu](http://www.nmhu.edu).)



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**Discussion of Statement of Net Assets**

**Current assets** increased 22.2 percent during the year. The ending balance of \$26.3 million consists primarily of cash/cash equivalents (\$20.2 million) and receivables (\$4.8 million). Cash/cash equivalents increased 36.5 percent. However, it should be noted that all cash and cash equivalents are essential and completely designated for ongoing operations. The University has implemented procedures to collect receivables in a timely manner and is well able to meet all its current financial obligations.

The total cost of **Capital assets** is comprised of land, buildings and improvements (\$85.5 million); and library books, equipment, vehicles, and furniture (\$22.6 million). Under the new GASB 34/35 standards, all capital assets, except land and construction-in-progress, are being **depreciated**, meaning that a percentage of the assets' cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$44.8 million (\$109.9 million cost less \$65.2 million accumulated depreciation).

**Total liabilities** of \$11.8 million constitute 15.7 percent of total assets and consist primarily of payables/accrued liabilities (\$5.4 million), bonds/notes payable (\$4.4 million), and deferred revenue (\$2.0 million). The latter represents money that has been received from granting agencies, but not yet earned.

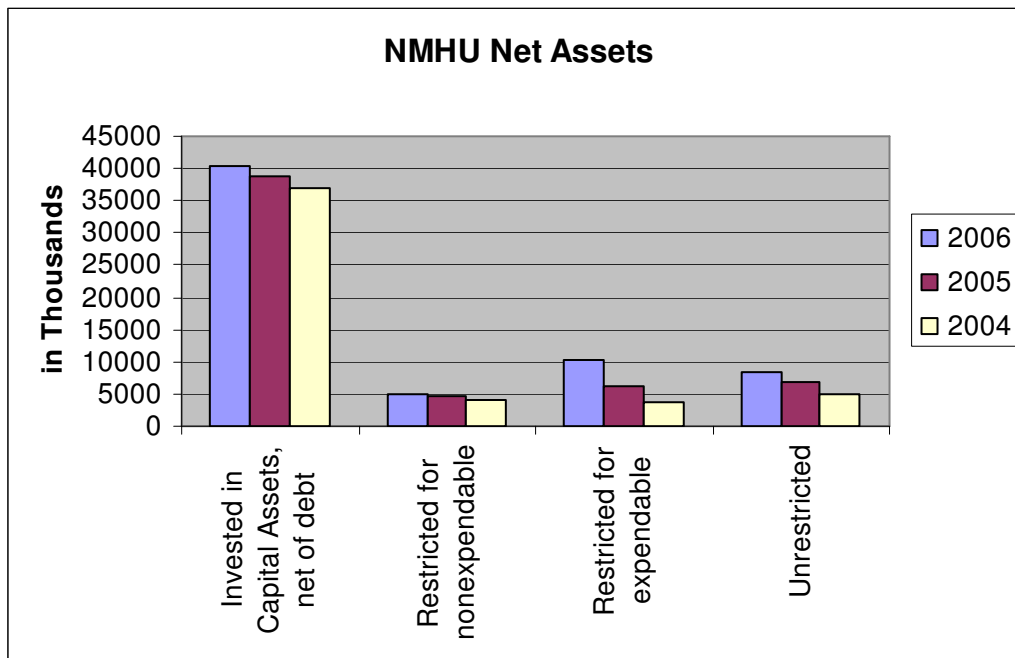
**Total net assets** increased by \$7.2 million, or 12.7 percent, during the year. (Over a two-year period, net assets increased \$14.0 million or 28.2 percent). The ending balance of \$63.8 million is derived by deducting total liabilities from total assets and shows the composition of the University's equity. Restricted for nonexpendable (\$4.8 million) represents the University's endowment corpus, whereas restricted for expendable (\$10.4 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$8.3 million) are available to the University for any lawful purpose.

The **Foundation's net assets** increased \$0.42 million, from \$3.2 million to \$3.6 million, due to the fact that expenditures were kept below the revenue level.

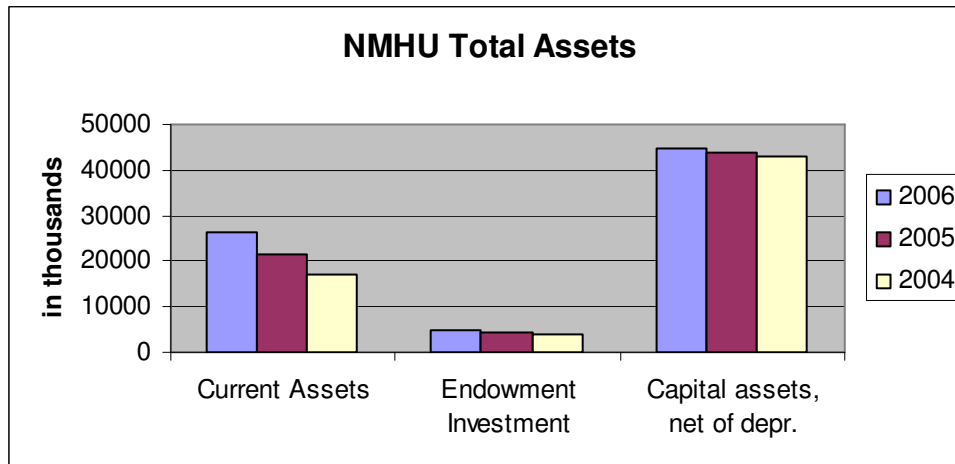
**STATE OF NEW MEXICO  
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**Net Assets as June 30, 2006 and 2005 (Thousands)**

	<u>2006</u>	<u>2005</u>
<b>Assets:</b>		
Current assets	\$26,339	\$21,554
Endowment investments	4,647	4,315
Capital assets, net of accum. depr.	<u>44,775</u>	<u>44,008</u>
Total assets	<u>75,761</u>	<u>69,877</u>
<b>Liabilities:</b>		
Current Liabilities	7,449	8,707
Non-current Liabilities	<u>4,425</u>	<u>4,495</u>
Total Liabilities	<u>11,874</u>	<u>13,202</u>
<b>Net Assets:</b>		
Invested in capital assets, net of debt	40,350	38,813
Restricted for nonexpendable	4,867	4,544
Restricted for expendable	10,374	6,360
Unrestricted	<u>8,296</u>	<u>6,957</u>
Total net assets	<u>\$63,887</u>	<u>\$56,674</u>



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



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

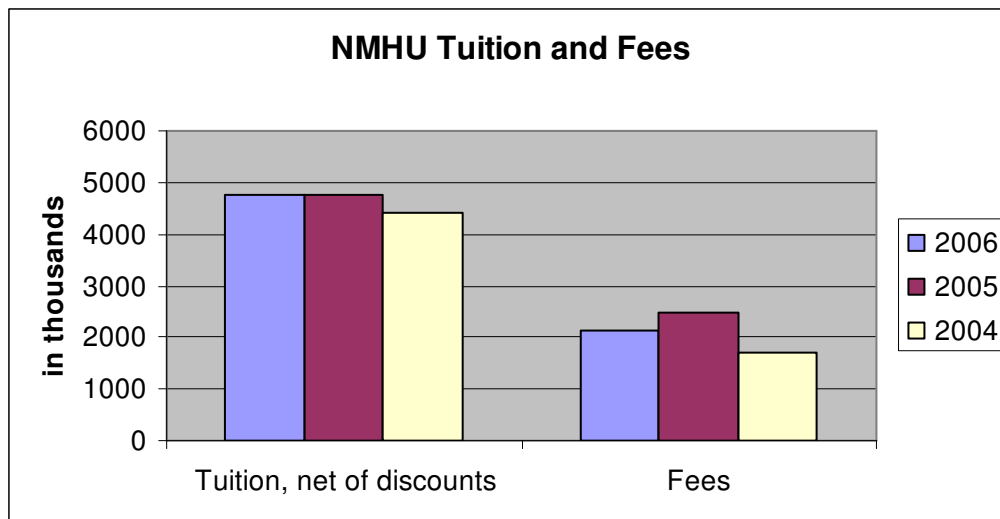
This statement shows the components that increased, in the aggregate, the University’s net assets by \$7.2 million during the year. According to the new accounting standards, operating expenses (\$56.0 million) are subtracted from operating revenues (\$29.1 million), resulting in an “operating loss” (\$26.9 million). However, the latter is not very meaningful, since it excludes state general fund appropriations (\$27.8 million), which are required to be classified as non-operating revenue, because they are provided to the University without the state receiving commensurate goods and services for this revenue. Since state general fund appropriations are essential for the University to carry out its instructional and public service mission, the reader should focus on the \$4.4 million **“Income before other revenue, expenses, gains and losses”** achieved during the year.

Added to this income is \$2.8 million in capital grants and gifts (federal and state money designated for construction projects), in order to arrive at an increase in net assets of \$7.2 million.

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<b>Analysis of tuition and fees revenue</b>				
	<u>2006</u>	<u>2005</u>	<u>Incr (Decr)</u>	
Tuition	\$5,632	\$5,732	(100)	- 1.7%
Fees	<u>2,123</u>	<u>2,483</u>	<u>(360)</u>	-14.5%
Subtotal	7,755	8,215	(460)	- 5.6%
Tuition discounts/allowance	<u>(863)</u>	<u>(976)</u>	<u>(113)</u>	- 11.6%
Net	<u>\$6,892</u>	<u>\$7,239</u>	<u>(347)</u>	- 4.8%

Tuition and fees, net of discounts and allowances, decreased by .05 percent however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees (as required by the new standards), the latter decreased by \$.46 million, or .06 percent.

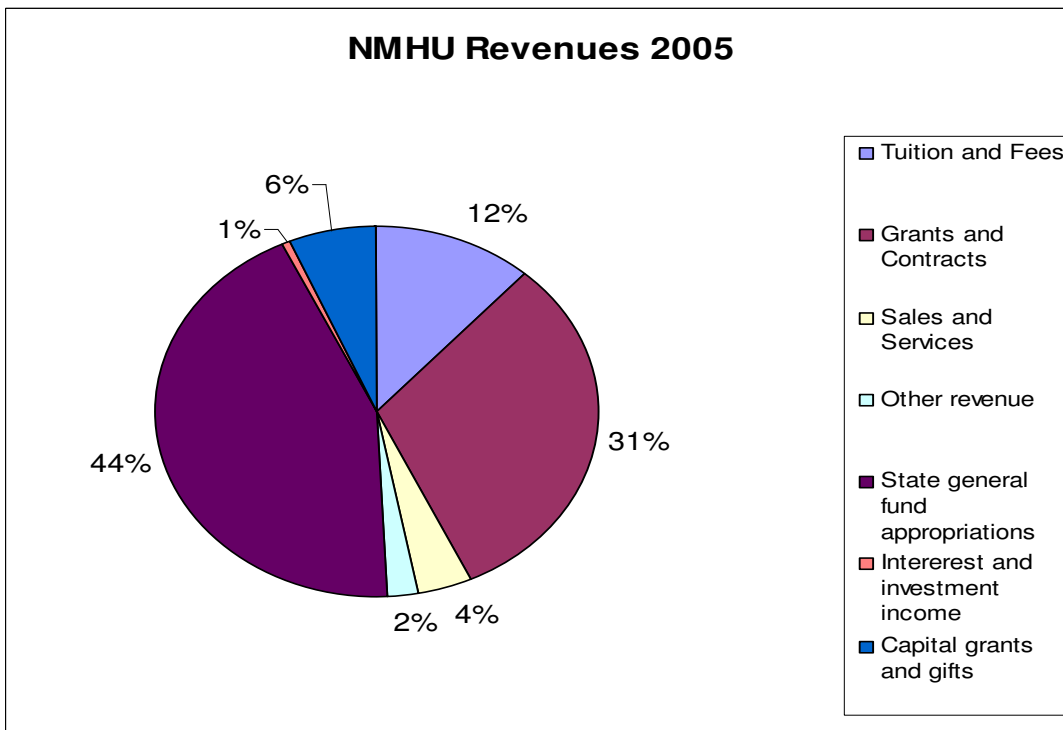
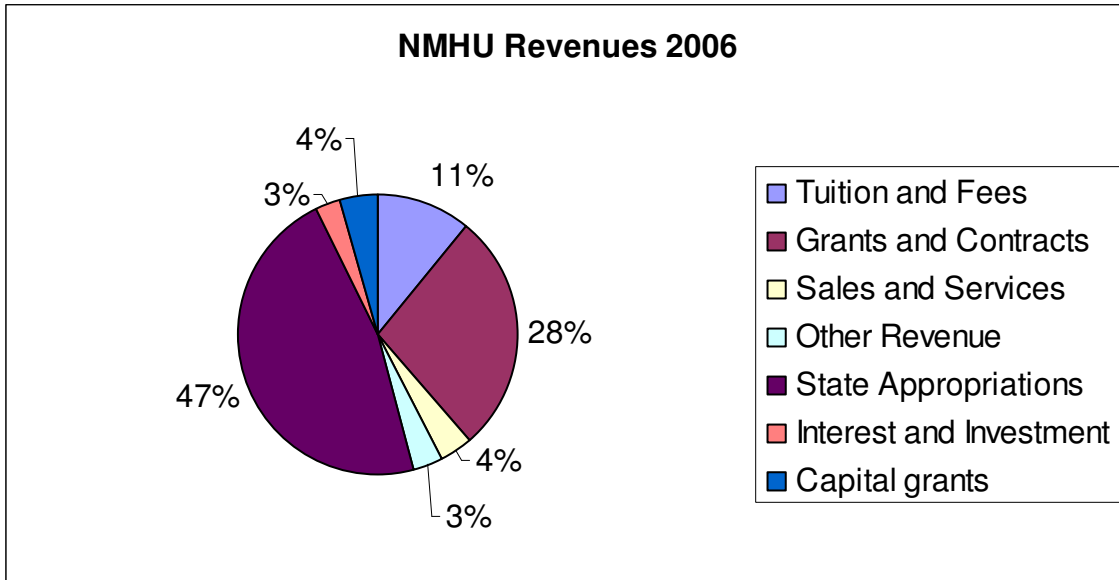


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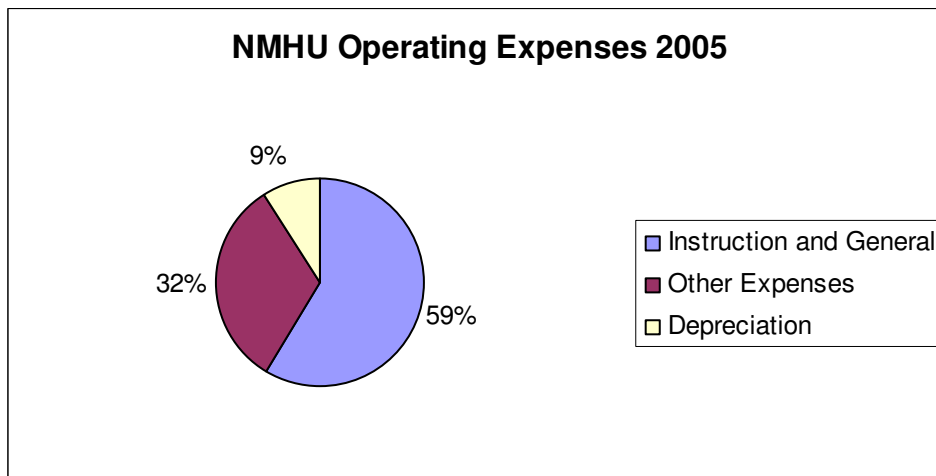
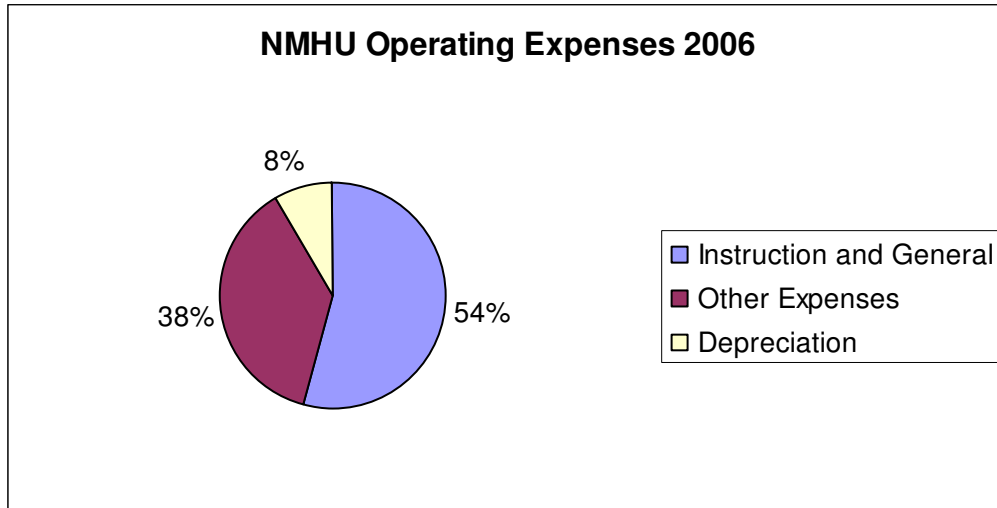
State general fund appropriations increased by \$2.4 million (8.9%), primarily due to the fact that the University's funding base (work load) for Instruction & General was increased for FY06, because the University's student credit hours had exceeded the required 3% threshold.

<b>Activities for the year ended June 30, 2006 and 2005 (Thousands)</b>		
	<b><u>2006</u></b>	<b><u>2005</u></b>
Operating Revenues:		
Tuition and Fees, net	\$ 6,892	\$7,240
Grants & Contracts	17,474	19,568
Sales and Services	2,514	2,504
Other Revenue	<u>2,265</u>	<u>1,428</u>
Total Operating Revenues	<u>29,145</u>	<u>30,740</u>
Operating Expenses:		
Instruction and General	30,289	32,440
Other Operating Expenses	21,054	17,951
Depreciation	<u>4,702</u>	<u>5,052</u>
Total Operating Expenses	<u>56,045</u>	<u>55,443</u>
Operating Loss	<u>(26,900)</u>	<u>(24,703)</u>
Non-Operating Revenue:		
State general fund appropriations	29,782	27,347
Interest and investment income	<u>1,488</u>	<u>343</u>
Income before other rev., exp., gains, losses	<u>4,370</u>	<u>2,987</u>
Other Revenue:		
Capital grants and gifts, net	<u>2,842</u>	<u>3,955</u>
Increase in net assets	<u>7,212</u>	<u>6,942</u>
Nest assets, beginning, unadjusted	56,674	49,835
Cumulative effects – depreciation		<u>(102)</u>
Net assets, beginning, as adjusted	<u>56,674</u>	<u>49,733</u>
Net assets, ending	<u>63,886</u>	<u>56,675</u>

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**Discussion of Statement of Cash Flows**

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University achieved a \$5.4 million net increase during the year, resulting in an ending cash balance of \$20.2 million. As a result of tight expenditure controls, collection of receivables, timely drawing of grant funds and other prudent cash management measures, the University was able to gradually increase the average amount of cash in the bank throughout the year, thus significantly improving the University's access to working capital and investment earnings. The Statement of Cash Flows, in conjunction with the Statement of Net Assets, indicates that the University is well able to meet its obligations and finance its operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

Statement of Cash Flows for the Year ended June 30, 2006 and 2005 (thousands)		
	2006	2005
Cash flows from operating activities:		
Net cash used by operating activities	(22,140)	(17,012)
Net cash provided by noncapital financing activities	32,624	31,302
Net cash flow provided by investment activities	1,156	82
Net cash used by capital & related financial activity	(6,239)	( 8,567)
Net Increase in cash and cash equivalents	5,401	5,805
Cash and cash equivalents, beginning of year	14,809	9,003
Cash and cash equivalents, ending of year	20,210	14,808

**Discussion of Significant Capital Projects**

The University continued to improve its student housing and infrastructure, funded by general fund, general obligation and severance tax bonds. The 2005 Legislature appropriated \$1.0 million for the Student Services Center and \$1.5 million for Golf Course Improvements. Additionally, the 2006 Legislature appropriated \$0.5 million for Golf Course Improvements.

In the Fall 2005, NMHU experienced significant infrastructure problems with the University electrical and steam heating systems. The University seems to be successful in addressing these issues on a short term emergency status. However, the long term repercussions of the University Infrastructure exist. NMHU alerted representatives from both the Legislative and Executive branches of government of infrastructure problems during the 2006 Legislative session consisting of short term and long range plans with associated costs. Subsequently the 2006 Legislature appropriated approximately \$20 million to higher education to address deferred maintenance statewide of which NMHU was a recipient to an additional \$800 thousand in FY07. Additionally, the New Mexico Higher Education Department was tasked to formulate a statewide assessment of facility needs in order to address the issue in the 2007 Legislative session. NMHU has been working closely with HED to provide information to achieve this task.



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In response to heating and utility issues, the 2005 Special Session addressed projected fiscal shortfall due to the spike in energy prices and lack of funding. The University received \$351 thousand in FY06 from the initiative. However, if the economy continues to reach higher levels, the University would need to address projected budget shortfalls as they relate to the economics of the State of New Mexico. NMHU continues to make its students its number one priority and any attempt to address projected shortfalls, puts the university in a critical position to students, faculty, staff and community.

NMHU would have to look at the possibility of;

- curtailing evening and weekend cultural and activities functions campus wide,
- reviewing staffing patterns and address possible delays in hiring faculty and staff,
- reducing library hours,
- eliminating all non-essential in-state travel - even for functions that would advance the institution or assist students, and
- eliminating all non-critical out-of-state travel.

As can be seen from the above list, these areas of possible reduction hurt student, faculty and community. This possible reduction is in addition to hard social and economic issues addressed over the past few years. In addition, NMHU has developed a University wide master plan addressing deferred maintenance.

NMHU is hoping to lobby state officials during the 2007 legislative session to increase funding of \$25.4 million for infrastructure needs at the university to succeed with its vision to motivate people to higher levels of excellence in all they do and in working to ensure that limited household finances do not deprive students of higher education and opportunities to enrich their lives and those of their families.

**Bonding**

The 2006 Legislature and the citizenry of the State of New Mexico provided NMHU with \$11.0 million in General Obligation Bonds to address:

- Student Union Center/Cafeteria - \$4.5 million;
- Felix Martinez Building - \$3.5 million; and
- Burris Hall - \$3.0 million.

In the Fall 2006, NMHU reviewed existing funding sources and prioritized Capital Outlay projects which correlate with the Strategic Plan to further enhance the University. To address these needs, NMHU reviewed its bonding capacity and identified projects which could be utilized through this funding mechanism. As a result NMHU has determined the viability of a planned residential housing project through this funding alternative and is working with public and private partnerships to accomplish this endeavor.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Land Disposition**

The New Mexico State Board of Finance (BOF) and the Higher Education Department (HED) approved the sale of 26.0342 acres of land located in Rio Rancho for \$1.75 million. NMHU determined its needs will be better served at a different location other than where the vacant land was located. The sale of the property allows NMHU to partner with other higher education institutions to meet the educational needs of the student population of Sandoval County, in particular the City of Rio Rancho.

Additionally, the BOF and HED approved the sale of current residence provided for the University President. Currently, NMHU is pursuing options to either purchase or build a new home for the President.

**Discussion of Budget Comparisons**

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

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

**Current Facts**

**Student Services – Hope Scholarship**

In FY06, NMHU BOR and Administration made a conscientious decision to target the recruitment of incoming freshmen. The BOR approved a new HOPE (Highlands Opportunity for Performance Excellence) Scholarship for all full-time, first-time incoming freshmen. The scholarship covers all tuition expenses for the first year at NMHU. This scholarship allows individuals to move into the higher education setting and alleviates some of the financial burden brought forward with tuition. Also, the HOPE Scholarship provides a mechanism to allow these students to transition into the statewide Lottery Scholarship after the first semester.

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

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

**Change in Leadership**

The Board of Regents and the University President agreed the best interest to move the University forward was a change in leadership. This resulted in a buyout of the President's contract during FY07 of approximately \$200 thousand and insurance benefits for 18 months.

**Economic Outlook**

For **FY07**, the University qualifies for a base funding adjustment (via the Higher Education Department's funding formula), because student credit hours in FY05 increased by 7.8 percent.

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

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

NMHU has implemented the following new projects in FY07 and has requested recurring funding for each of these projects:

- Ben Altamirano Leadership Institute
- Bilingual Education Materials

In addition NMHU has requested funding for two new projects:

- Practice Makes Perfect
- Economic Development Center

**Other NMHU Initiatives**

In FY06, NMHU proposed the following New Program Initiatives which correlate with the University's strategic plan, all of which have been approved by the Board of Regents in FY07 with the exception of the Ph.D. Program in Clinical Psychology which is still being reviewed;

- **2 + 2 Nursing Program** – With concentration in management in partnership with Luna Community College. The planning proposal is jointly developed by College of Arts and Sciences, Luna Community College and a faculty member from the University of New Mexico.
- **3 + 2 Engineering & Computational Engineering Program** - NMHU projects a 3/2 program, could be of minimal cost and become well respected in transferring well prepared students which may then evolve into a unique Bachelor of Science in Engineering (BSE) degree which would complement the offerings of the other three engineering schools in NM. The Computational Engineering Program, by design, the unique computational engineering track complements all of NMHU's current sciences programs. Course offerings in the future can provide contemporary training to the program. The degree would be a BSE and the concentration area of "computational engineering". Specific areas in computational engineering are growing fields in science and engineering and are consistent with the need for interdisciplinary approaches to problem solving in industry and academics.

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- **Ph.D. Program in Clinical Psychology** – Addresses the need for clinical psychologists to serve New Mexico’s rural areas and child populations. First year program cost is estimated at \$318 thousand with subsequent years funded at a recurring cost of \$241 thousand.

In August 2006, the BOR approved the following programs;

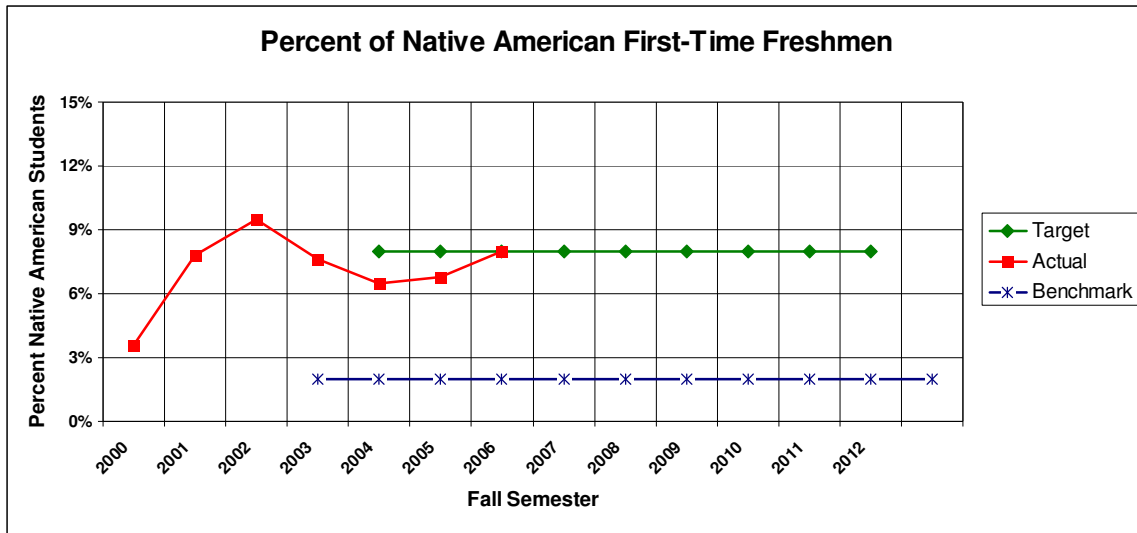
- **Forensic Science,**
- **2 + 2 Nursing Program, and**
- **Native American Hispano** (designated as Minor degree)

**Performance Indicators**

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

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

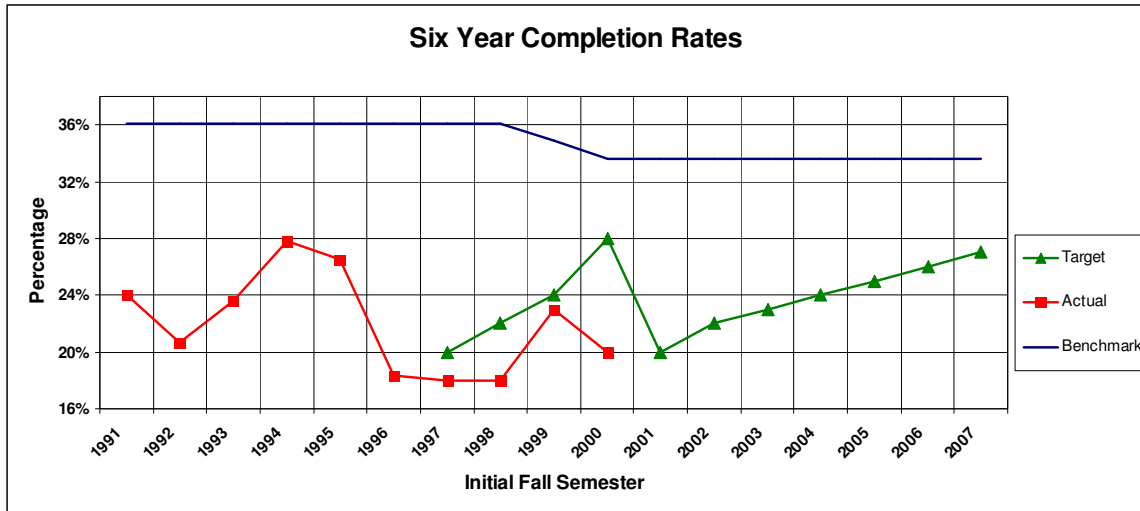
Native American First-Time Freshmen Enrollment - Target 8.0 % actual 8.0%



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

In 2006, NMHU exceeded the benchmark and met the target amount and continues to be committed to Native American Recruitment. The University is currently working to develop partnerships with area tribal higher education officials to develop stronger partnerships. Also, the University is committed to provide incoming Native American students with an opportunity to transition into college life without loss of cultural affiliation.

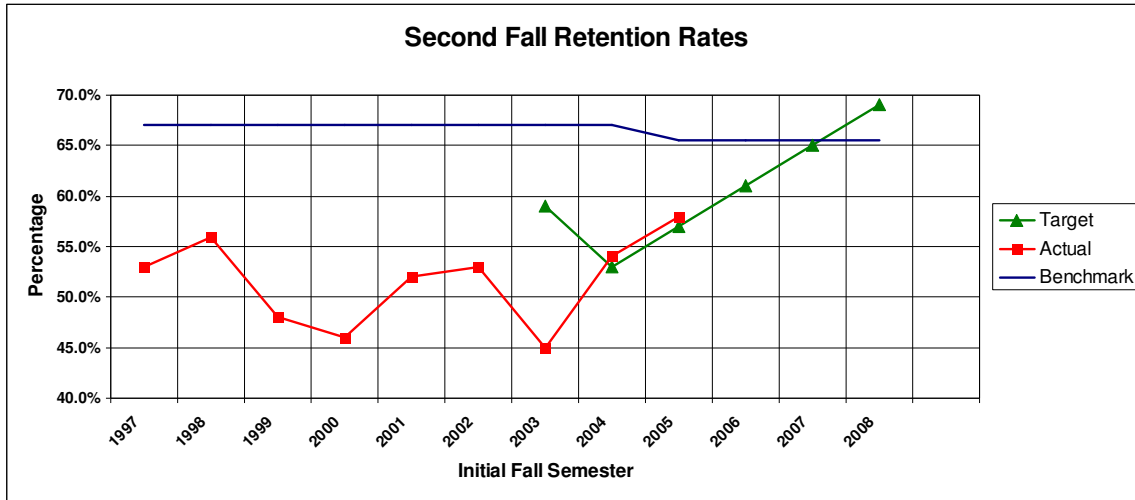
Six year Completion Rates – Target 28% actual 20%. Re-established target is 28%,



NMHU experienced a significant decline in completion rates. NMHU is committed to re-evaluating data to re-adjust our target to close the gap on the Consortium for Student Retention Data Exchange (CSRDE) benchmark. NMHU has instituted a number of initiatives designed to improve success rates, retention rates, degree completion in a timely manner and timely completion of a post-baccalaureate degree. The implementation of a broad spectrum of student support initiatives by the Office of Student Academic Success Services (SASS) will assist in improving our retention and completion rates. NMHU has initiated pilot programs through the Department of English and Math which incorporate smaller classes and the addition of a workshop which is tied to teach pilot classes. NMHU hired a Coordinator of New Student Programs and Academic Advising to improve the process of advisement for all students in all levels.

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

Retention Measure – Target 57% actual 58%. 2005 target re-established at 57%,



NMHU has surpassed our target rate and will continue to improve in closing the time frame to reach the benchmark within four years. NMHU continues its quest to improve retention rates and has initiated pilot programs through the Department of English and Math which incorporate smaller classes and the addition of a workshop which is tied to teach pilot classes. In addition, a Coordinator of New Student Programs and Academic Advising has been hired to improve the process of advisement for all students in all levels. NMHU is committed to improving retention rates and has implemented an automated early alert process that has shown success over the past year. This initiative has shown an increase in faculty participation and a 4% increase in retention from Fall 2005 to Fall 2006. NMHU continues its retention initiatives including; providing tutoring service for 100 and 200 level courses in which a tutor is assigned to these courses, attends class and is accessible to students; providing peer mentors who are assigned to 100 and 200 classes; training for faculty and staff advisors; and the development of an Exit Interview program for students who leave the university.

**Contact Information**

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

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

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF NET ASSETS  
Year Ended June 30, 2006**

	Primary Government	Component Unit
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 20,209,692	6,417
Student accounts receivable, net of an allowance of \$2,265,719	992,868	-
Third party receivable	1,199,208	-
Grants receivable, net of an allowance of \$912,243	1,696,925	-
Other receivables	919,703	13,229
Inventories	743,818	-
Prepaid assets	577,124	3,867
<b>Total current assets</b>	<u>26,339,338</u>	<u>23,513</u>
Noncurrent Assets		
Investments	4,647,109	3,054,933
Capital assets, net of accumulated depreciation	44,774,740	2,583,109
<b>Total noncurrent assets</b>	<u>49,421,849</u>	<u>5,638,042</u>
<b>Total assets</b>	<u>\$ 75,761,187</u>	<u>5,661,555</u>
<b>LIABILITIES</b>		
Current Liabilities		
Payables and accrued liabilities	\$ 4,758,840	16,809
Accrued compensated absences	658,731	-
Deferred revenue	2,031,604	-
Bonds payable-current portion	805,000	-
Notes payable-current portion		176,050
<b>Total current liabilities</b>	<u>8,254,175</u>	<u>192,859</u>
Noncurrent Liabilities		
Accrued compensated absences	-	-
Bonds payable long-term portion	3,620,000	-
Assets held for others	-	237,500
Notes payable-long term portion	-	1,618,661
<b>Total noncurrent liabilities</b>	<u>3,620,000</u>	<u>1,856,161</u>
<b>Total liabilities</b>	<u>11,874,175</u>	<u>2,049,020</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of debt	40,349,740	788,398
Restricted for		
Nonexpendable		
Restricted for scholarships and grants	4,866,698	3,171,661
Expendable		
Loans	1,413,815	-
Capital projects	7,521,855	-
Debt service	1,438,533	-
Unrestricted	8,296,371	(347,524)
<b>Total net assets</b>	<u>63,887,012</u>	<u>3,612,535</u>
<b>Total net assets and liabilities</b>	<u>\$ 75,761,187</u>	<u>5,661,555</u>

See Notes to Financial Statements.



**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
Year Ended June 30, 2006**

	Primary Government	Component Unit
Operating revenues		
Tuition and fees	\$ 7,755,668	-
Tuition discounts and allowances	(863,651)	-
	<hr/> 6,892,017	
Federal grants and contracts	11,474,430	-
State and local grants and contracts	4,518,611	-
Private grants and contracts	1,481,055	-
State land, permanent fund and investment income	223,990	196,551
Sales and services of auxiliary enterprises	2,514,507	-
Contributions	-	745,115
Other	2,040,731	699,103
<b>Total operating revenues</b>	<hr/> <b>29,145,341</b>	<b>1,640,769</b> <hr/>
Expenses		
Instruction and general		
Instruction	15,463,559	-
Academic support	2,376,621	-
Student services	3,164,642	-
Institutional support	4,553,224	-
Operations and maintenance support	4,730,679	-
	<hr/> 30,288,725	-
Student social/cultural development	589,626	-
Research	2,434,132	-
Public service	7,782,281	-
Student aid grants and stipends	5,032,397	187,127
Tuition discounts and allowances	(863,651)	-
Auxiliary enterprises	2,253,448	-
Athletics	1,706,738	-
Other expenditures	2,118,715	937,338
Depreciation	4,702,255	57,699
<b>Total expenses</b>	<hr/> <b>56,044,666</b>	<b>1,182,164</b> <hr/>
Operating (loss) income	<hr/> <b>(26,899,325)</b>	<b>458,605</b> <hr/>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS (CONTINUED)  
Year Ended June 30, 2006**

	Primary Government	Component Unit
Non operating revenues (expenses)		
State appropriations	\$ 29,781,534	-
Interest and investment income	1,488,198	-
<b>Net nonoperating revenues</b>	<u>31,269,732</u>	<u>-</u>
<b>Income before other revenues, expenses, gains and losses</b>	<u>4,370,407</u>	<u>458,605</u>
Other		
Loss on disposition of capital assets	-	-
Capital grants and gifts, net	2,842,312	-
<b>Increase in net assets</b>	<u>7,212,719</u>	<u>458,605</u>
Net assets		
Net assets, beginning of year, as adjusted	<u>56,674,293</u>	<u>3,153,930</u>
<b>Net assets, end of year</b>	<u><u>\$ 63,887,012</u></u>	<u><u>3,612,535</u></u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2006**

	Primary Government	Component Unit
Cash Flows From Operating Activities		
Contributions	\$	519,343
Tuition and fees	6,629,606	-
Grants and contracts	15,764,622	-
Sales and services of educational activities	2,793,992	-
Other operating receipts	3,785,197	465,812
Payments to employees for salaries and benefits	(28,466,611)	-
Payments to suppliers	(22,647,093)	(760,043)
<b>Net cash (used) provided by operating activities</b>	<u>(22,140,287)</u>	<u>225,112</u>
Cash Flows From Noncapital Financing Activities		
State appropriations	29,781,534	
Capital grants	2,842,311	-
<b>Net cash provided by noncapital financing activities</b>	<u>32,623,845</u>	<u>-</u>
Cash Flows From Investment Activities		
Purchases of investments	(202,156)	(216,135)
Sales of investments	-	-
Unrealized gain on assets	(130,313)	
Interest received on investments	1,488,198	90,064
<b>Net cash (used) provided by investment activities</b>	<u>1,155,729</u>	<u>(126,071)</u>
Cash Flows From Capital and Related Financing Activities		
Cash paid for capital assets	(5,468,562)	
Repayments of bonds payable	(770,000)	-
Proceeds from Note Payable	-	(183,554)
Repayments of notes and capital lease payable	-	-
<b>Net cash used by capital and related financing activities</b>	<u>(6,238,562)</u>	<u>(183,554)</u>
<b>Net increase in cash and cash equivalents</b>	5,400,725	(84,513)
Cash and cash equivalents, beginning of year	<u>14,808,967</u>	<u>90,930</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 20,209,692</u>	<u>6,417</u>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended June 30, 2006**

	Primary Government	Component Unit
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating (loss) income	\$ (26,899,325)	458,605
Adjustments to reconcile operating (loss) income to net cash used by operating activities		
Depreciation expense	4,702,255	57,698
Unrealized gain/loss on investments	-	(195,963)
Loss on disposal of assets		-
Changes in assets and liabilities		
Receivables	642,475	956
Inventories	(54,624)	-
Other assets	27,904	(588)
Accounts payable and accrued expenses	221,460	(5,532)
Deferred revenue	(814,399)	-
Investment and interest income	-	(90,064)
Compensated absences	33,967	-
	<hr/>	<hr/>
<b>Net cash (used) provided by operating activities</b>	<b>\$ (22,140,287)</b>	<b>225,112</b>

*See Notes to Financial Statements.*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

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

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

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

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

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

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

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

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

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

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

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

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

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

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

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

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

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

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

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

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

*Procedures for Approval of Operating Budgets*

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

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

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

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

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

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

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

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

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

*Income Taxes.* The University, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the University are deductible by donors as provided under Section 170 of the Internal Revenue Code, and consistent with the provisions under Section 501(c)(3) of the Internal Revenue Code.

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



**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

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

*Deferred Income.* Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May 2006 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2006. Deferred revenues also include amounts received from grant and contract sponsors that have not been earned.

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

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

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

*Compensated Absences.* The University accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. The current portion of the accumulated vacation leave is calculated as an average of the annual leave taken for the last five years. Accrued vacation up to 160 hours is recorded at 100% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA).

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

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

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

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

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

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

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

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

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

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

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

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

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006**

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

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

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

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

**NOTE 2. CASH AND CASH EQUIVALENTS**

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

	<u>Component Unit</u>	
	New Mexico Highlands University	NMHU Foundation
Bank Deposits	\$17,603,348	\$ 6,417
State Treasurer Local Government Investment Pool	4,115,431	
	<u>\$21,718,779</u>	<u>\$ 6,417</u>

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

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 2. CASH AND CASH EQUIVALENTS**

As of June 30, 2006, \$6,892,172 of the government's bank balance of \$21,718,799 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$6,892,172</u>
--------------------------------	--------------------

The Foundation is not required to follow State Statutes and therefore no collateralization is required. As of June 30, 2006, none of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

*Credit Risk.* The University has money market funds that are considered cash. As of June 30, 2006, the University's money market accounts are backed by commercial paper and other debt instruments that are rated AAA by Moody's Investor Service.

*New Mexico State Treasurer Local Government Investment Pool* - As of June 30, 2006, the State Treasurer Investment Pool was paying the University 4.71 percent per annum. The interest rate is determined by the State Treasurer. The following applies to the State Treasurer Investment Pool:

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

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

The pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the perspective amounts deposited in the fund and the length of time the amounts fund were invested; and participation is voluntary. The State Treasurers rating of investments are for an average maturity of 5 years and are AAA rated by Moody Investor Services.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3. INVESTMENTS**

At June 30, 2006, investments of the University and its components units are summarized as follows:

	<u>Maturities</u>	<u>Component Unit</u>	
		<u>New Mexico Highlands University</u>	<u>Foundation</u>
State Investment Council	6 – 7 yrs \$	2,171,567	\$ -
State Investment Council (land grant)	N/A	2,475,542	-
U.S. Obligations	3 months avg	-	347,257
Stocks and bonds	Various	-	2,707,676
Total		<u>\$ 4,647,109</u>	<u>\$ 3,054,933</u>

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

*Credit Risk.* The University has an investment policy that requires an allocation percentage of 75% of the funds will be invested in equities and 25% in fixed income securities. As of June 30, 2006, the University’s investment in the state investment pool fixed income funds consists of the Core Bond Fund, which consists of commercial paper and other debt instruments that are rated between AA-2 and AA S&P by Moody’s Investors Service. The University is also invested in the High Yield Bond Fund that invest in Bonds and commercial paper averaging a rating between a BA-2 and BA-3 range.

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase in temporarily restricted net assets until the amount is expended in accordance with donor specifications and in accordance with the State of New Mexico Uniform Management of Institutional Funds Act (Chapter 46, Article 9, NMSA 1978). During the current year, donor-restricted endowments had net appreciation of \$195,963 and investment income of \$90,064.

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

Following are the changes in capital assets for the University for the year ended 30 June 2006:

	Balance 30 June 2005	Additions	Retirements	Balance 30 June 2006
Capital assets not being depreciated				
Land	\$3,123,185	39,000	1,120,553	<b>\$2,041,632</b>
Artwork	143,300			<b>143,300</b>
Construction-in-progress	31,739	1,680,898		<b>1,712,637</b>
<b>Total capital assets not           being depreciated</b>	<b>\$3,298,224</b>	<b>1,719,898</b>	<b>1,120,553</b>	<b>\$3,897,569</b>
Other capital assets				
Land improvements	\$4,226,220	737,423		<b>\$4,963,643</b>
Buildings	75,713,098	2,779,741		<b>78,492,839</b>
Furniture, fixtures and equipment	15,459,612	841,670	1,072,369	<b>15,228,913</b>
Library materials	7,248,444	391,644	231,774	<b>7,408,314</b>
<b>Total other capital assets</b>	<b>102,647,374</b>	<b>4,750,478</b>	<b>1,304,143</b>	<b>106,093,709</b>
Less accumulated depreciation for				
Land improvements	2,026,138	272,901		<b>2,299,039</b>
Buildings	42,981,182	2,833,916		<b>45,815,098</b>
Furniture, fixtures and equipment	10,808,260	1,356,635	1,191,107	<b>10,973,788</b>
Library materials	6,121,584	238,803	231,774	<b>6,128,613</b>
<b>Total accumulated depreciation</b>	<b>61,937,164</b>	<b>4,702,255</b>	<b>1,422,881</b>	<b>65,216,538</b>
<b>Other capital assets, net</b>	<b>\$40,710,210</b>	<b>48,223</b>	<b>(118,738)</b>	<b>\$40,877,171</b>
Capital assets summary:				
Capital assets not being depreciated	\$3,298,224	1,719,898	1,120,553	<b>\$3,897,569</b>
Other capital assets	102,647,374	4,750,478	1,304,143	<b>106,093,709</b>
Total cost of capital assets	105,945,598	6,470,376	2,424,696	<b>109,991,278</b>
Less accumulated depreciation	61,937,164	4,702,255	1,422,881	<b>65,216,538</b>
<b>Capital assets, net</b>	<b>\$44,008,434</b>	<b>1,768,121</b>	<b>1,001,815</b>	<b>\$44,774,740</b>

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June 30, 2006**

**5. LONG-TERM LIABILITIES**

Long-term liability activity for the University for the year ended June 30, 2006, is as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Amount Due Within One Year
Bonds payable	<u>\$5,195,000</u>	<u>\$ -</u>	<u>\$770,000</u>	<u>\$4,425,000</u>	<u>\$805,000</u>
Accrued compensated balances	<u>\$ 624,764</u>	<u>\$658,731</u>	<u>\$624,764</u>	<u>\$ 658,731</u>	<u>\$554,478</u>

**NOTE 6. BONDS PAYABLE – REFUNDING AND CONSTRUCTION**

Long-term debt consists of System Refunding Revenue Bonds, Series 1998, originally issued for \$9,150,000. The outstanding bonds are due in annual installments varying through the year 2011. The carrying interest rates range from 4.25% to 4.7%.

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

Debt service amounts for future fiscal years is as follows:

	Principal	Interest	Ending June 30,
2007	805,000	201,980	1,006,980
2008	845,000	165,755	1,010,755
2009	885,000	127,730	1,012,730
2010	925,000	87,905	1,012,905
2011	<u>965,000</u>	<u>45,355</u>	<u>1,010,355</u>
	<u>\$ 4,425,000</u>	<u>628,725</u>	<u>5,053,725</u>

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**NOTE 7. RISK MANAGEMENT**

*Self Insurance Plan.* The University terminated the self insurance plan for employee medical coverage effective October 31, 2004. Effective November 1, 2004, the University joined the New Mexico State Employee Benefits Program administered by the Risk Management Division. During the self insurance period, the University had limited risk of liability with a stop-loss policy, which continues coverage for any participant with claims from an individual occurrence in excess of \$30,000. The liability for claims incurred as of June 30, 2006 was \$978. There is a 13 - month term clause for the run-out of claims. This term expired on December 31, 2005.

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

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

**NOTE 8. EMPLOYEE BENEFITS**

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

*Workers' Compensation Insurance.* The University is insured for workers' compensation through the State of New Mexico General Services Department-Risk Management Division (RMD). RMD provides workers' compensation for all employees as required by state law. The University remits payments to RMD for this coverage based on premium statements received from RMD. Total expense for the year ended June 30, 2006, was \$88,951 which has been charged to expenditures.



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**NOTE 8. EMPLOYEE BENEFITS (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 nonvested accumulated plan benefits, the plan's net assets available for benefits and the assumed rate of return used in computing the present value, and ten-year historical trend information presenting ERA's progress in accumulating sufficient assets to pay benefits when due is not available as it relates to individual government agencies participating in the plan. Actuarial pension data for the State of New Mexico, as employer, is provided at the statewide level in a separately issued audit report of the ERA.

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

A member is eligible to retire when:

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

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

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

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**NOTE 8. EMPLOYEE BENEFITS (CONTINUED)**

*Funding Policy.* Plan members are required to contribute 7.675% of their gross salary. The University is required to contribute 9.4% of the gross covered salary. The contribution requirements of plan members and the University are established in Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The University's contributions to ERA (including employee portion) for the years ending June 30, 2006, June 30, 2005, and June 30, 2004 were \$3,040,195, \$2,768,480, and \$2,620,981, respectively, equal to the amount of the required contribution for each year.

*Health Insurance.* The University maintains its group health insurance for active employees with the New Mexico Public Schools Insurance Authority.

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

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

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

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

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**NOTE 8. EMPLOYEE BENEFITS (CONTINUED)**

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

The University remitted \$258,128 and \$252,017 in employer contributions for years ended June 30, 2006 and June 30, 2005.

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan. With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 6.4% to the carrier selected by the employee. The employee contributes 7.675% of his/her gross salary to the carrier they select. Contributions by the University totaled \$61,579 to the ERA for the alternative plan and \$135,263 to the various carriers for the year ended June 30, 2006. Employees contributed \$162,210 to the various carriers under the alternative plan during the year ended June 30, 2006.

**NOTE 9. LEASES**

At June 30, 2006, the University had various operating lease arrangements summarized as follows:

*Operating Leases.* Rent expense for operating leases amounted to \$934,827 for the year ended June 30, 2006.

*Minimum Lease Payments.* The following is a schedule of future minimum lease payments for these leases at June 30, 2006:

Year Ending June 30	Operating Leases
2007	\$ 973,679
2008	773,161
2009	733,264
2010	517,424
2011-2015	1,850,040
2016-2020	1,850,040
	<u>\$ 6,697,608</u>

**STATE OF NEW MEXICO  
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 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006**

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

At June 30, 2006, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	<u>\$ 811,936</u>
Plant Funds	<u>\$ 1,747,649</u>

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

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

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

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

**NOTE 11. RECONCILIATION OF BUDGET BASIS TO GAAP**

Budget basis expenditures	\$ 58,249,512
Capital expenditures	(5,622,908)
Depreciation	4,702,255
Scholarship allowance	(863,651)
Perkins Loans/Endowment Scholarships	175,173
Endowment/Agency Expenditures	174,285
Bond payments	<u>(770,000)</u>
Expenses per GAAP	<u>\$ 56,044,666</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 12. FOUNDATION CASH AND CASH EQUIVALENTS**

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

	Federally Insured	Insured and Collateralized	Uninsured and Un- Collateralized	Total Depository Balances
Demand deposits	\$ 6,417	-0-	-0-	6,417

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

Following are the changes in capital assets for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Capital assets not being depreciated					
Land	\$ 794,460	-	-	-	794,460
Other capital assets					
Buildings	2,250,237	-	-	-	2,250,237
Less accumulated depreciation for					
Buildings	403,890	57,698	-	-	461,588
Other capital assets, net	\$ 1,846,347	57,698	-	-	1,788,649
Capital assets summary					
Capital assets not being depreciated	\$ 794,460	-	-	-	794,460
Other capital assets, at cost	2,250,237	-	-	-	2,250,237
<b>Total cost of capital assets</b>	3,044,697	-	-	-	3,044,697
Accumulated depreciation	(403,890)	(57,698)	-	-	(461,588)
<b>Capital assets, net</b>	\$ 2,640,807	57,698	-	-	2,583,109

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 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006**

**NOTE 14. FOUNDATION LONG TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2006 is as follows:

	Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<b>Balance <u>June 30, 2006</u></b>	Amount Due Within <u>One Year</u>
Notes payable	<u>\$1,978,477.</u>	<u>\$ -</u>	<u>\$(183,766)</u>	<b><u>\$1,794,711</u></b>	<u>\$176,050</u>

**NOTE 15. FOUNDATION NOTES PAYABLE**

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

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

**\$ 1,794,711**

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

2007	176,050
2008	176,261
2009	<u>1,442,400</u>
	<b><u>\$ 1,794,711</u></b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
COMBINED REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
State general fund appropriations	\$ 26,836,200	29,610,627	29,781,534	170,907
Federal revenue sources	9,931,077	9,813,160	10,007,668	194,508
Tuition and fees	7,097,422	6,967,650	7,634,364	666,714
Land and permanent fund	137,900	192,589	223,990	31,401
Private grants/contracts	1,953,710	1,921,618	1,315,741	(605,877)
Sales & Service	2,608,776	2,655,419	2,793,992	138,573
Government grants - state	13,682,318	8,191,866	7,360,921	(830,945)
Endowments and private gifts	-	-	-	-
Other	1,500,000	3,790,758	4,558,106	767,348
<b>Total revenues</b>	<b>63,747,403</b>	<b>63,143,687</b>	<b>63,676,316</b>	<b>532,629</b>
Cash balance budgeted	4,918,732	11,687,501	11,585,920	(101,581)
<b>Total revenues and cash balance budgeted</b>	<b>68,666,135</b>	<b>74,831,188</b>	<b>75,262,236</b>	<b>431,048</b>
<b>Expenditures</b>				
Instruction and general	34,413,374	31,920,197	30,288,725	(1,631,472)
Student social and cultural	567,822	590,330	589,626	(704)
Research	2,837,906	2,517,152	2,434,132	(83,020)
Public service	5,596,218	7,612,078	7,782,281	170,203
Internal service departments	86,000	156,032	145,679	(10,353)
Student aid	5,264,998	5,214,998	4,857,224	(357,774)
Auxiliary enterprises	1,989,357	1,924,388	2,085,554	161,166
Intercollegiate athletics	1,774,595	1,847,818	1,706,738	(141,080)
Capital outlay	9,937,000	6,666,998	6,403,065	(263,933)
Renewal and replacements	1,023,495	1,009,542	895,950	(113,592)
Retirement of indebtedness	1,060,737	1,060,737	1,060,538	(199)
<b>Total expenditures</b>	<b>64,551,502</b>	<b>60,520,270</b>	<b>58,249,512</b>	<b>(2,270,758)</b>
Change in net assets-budgetary basis	\$ 2,602,823	4,930,885	10,230,259	5,299,374

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
UNRESTRICTED CURRENT FUNDS  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ 5,900,620	5,815,762	5,632,041	(183,721)
Miscellaneous fees	696,802	541,178	851,547	310,369
Government appropriations-federal	-	-	-	-
Government appropriations-state	26,836,200	26,883,700	27,054,607	170,907
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	20,000	12,114	(7,886)
Endowments	-	-	-	-
Land and permanent fund	137,900	192,589	223,990	31,401
Private gifts	-	-	-	-
Sales & service	2,608,776	2,655,419	2,793,992	138,573
Other sources	1,500,000	3,790,758	4,307,155	516,397
<b>Total revenues</b>	<b>37,680,298</b>	<b>39,899,406</b>	<b>40,875,446</b>	<b>976,040</b>
Cash balance budgeted	2,248,068	6,815,359	6,713,778	(101,581)
<b>Total revenues and cash balance budgeted</b>	<b>39,928,366</b>	<b>46,714,765</b>	<b>47,589,224</b>	<b>874,459</b>
<b>Expenditures</b>				
Instruction and general	29,298,416	28,566,536	26,924,609	(1,641,927)
Student social and cultural	523,822	568,408	551,374	(17,034)
Research	624,435	586,831	465,325	(121,506)
Public service	1,096,542	1,586,413	1,260,533	(325,880)
Internal service departments	61,000	146,778	125,942	(20,836)
Student aid	528,998	478,998	340,892	(138,106)
Auxiliary enterprises	1,949,357	1,905,577	2,040,200	134,623
Intercollegiate athletics	1,767,595	1,841,110	1,692,539	(148,571)
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
<b>Total expenditures</b>	<b>35,850,165</b>	<b>35,680,651</b>	<b>33,401,413</b>	<b>(2,279,238)</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ 4,078,201</b>	<b>11,034,114</b>	<b>14,187,811</b>	<b>3,153,697</b>



**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
UNRESTRICTED CURRENT FUNDS  
SUMMARY OF INSTRUCTION AND GENERAL  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ 5,689,520	5,586,320	5,632,041	45,721
Miscellaneous fees	211,100	229,442	364,498	135,056
Government appropriations-federal	-	-	-	-
Government appropriations-state	24,249,200	24,249,200	24,596,167	346,967
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	137,900	192,589	223,990	31,401
Private gifts	-	-	-	-
Sales & service	67,000	79,483	112,680	33,197
Other sources	1,256,000	3,540,000	4,000,713	460,713
<b>Total revenues</b>	<b>31,610,720</b>	<b>33,877,034</b>	<b>34,930,089</b>	<b>1,053,055</b>
Cash balance budgeted	1,509,928	5,178,393	5,178,393	-
<b>Total revenues and cash balance budgeted</b>	<b>33,120,648</b>	<b>39,055,427</b>	<b>40,108,482</b>	<b>1,053,055</b>
<b>Expenditures</b>				
Instruction	14,745,051	13,797,815	12,774,123	(1,023,692)
Academic support	2,316,697	2,453,109	2,335,901	(117,208)
Student services	2,436,025	2,751,370	2,588,531	(162,839)
Institutional support	5,567,576	4,833,715	4,503,772	(329,943)
Oper. & maint. of plant	4,233,067	4,730,527	4,722,282	(8,245)
<b>Total expenditures</b>	<b>29,298,416</b>	<b>28,566,536</b>	<b>26,924,609</b>	<b>(1,641,927)</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ 3,822,232</b>	<b>10,488,891</b>	<b>13,183,873</b>	<b>2,694,982</b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
RESTRICTED CURRENT FUNDS  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	693,108	693,108
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	9,931,077	9,813,160	9,978,495	165,335
Government grants - state	4,795,318	4,387,564	4,310,784	(76,780)
Contracts - local	-	-	-	-
Private grants/contracts	1,953,710	1,901,618	1,255,207	(646,411)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	250,952	250,952
<b>Total revenues</b>	<b>16,680,105</b>	<b>16,102,342</b>	<b>16,488,546</b>	<b>386,204</b>
Cash balance budgeted	-	-	-	-
<b>Total revenues and cash balance budgeted</b>	<b>16,680,105</b>	<b>16,102,342</b>	<b>16,488,546</b>	<b>386,204</b>
<b>Expenditures</b>				
Instruction and general	5,114,958	3,353,661	3,364,117	10,456
Student social and cultural	44,000	21,922	38,252	16,330
Research	2,213,471	1,930,321	1,968,807	38,486
Public service	4,499,676	6,025,665	6,521,748	496,083
Internal service departments	25,000	9,254	19,737	10,483
Student aid	4,736,000	4,736,000	4,516,332	(219,668)
Auxiliary enterprises	40,000	18,811	45,354	26,543
Intercollegiate athletics	7,000	6,708	14,199	7,491
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
<b>Total expenditures</b>	<b>16,680,105</b>	<b>16,102,342</b>	<b>16,488,546</b>	<b>386,204</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>(0)</b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
RESTRICTED CURRENT FUNDS  
SUMMARY OF INSTRUCTION AND GENERAL  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	74,264	74,264
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	3,015,975	3,044,151	2,997,655	(46,496)
Government grants - state	2,034,844	282,560	261,239	(21,321)
Contracts - local	-	-	-	-
Private grants/contracts	64,139	26,950	16,023	(10,927)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	14,935	14,935
<b>Total revenues</b>	<b>5,114,958</b>	<b>3,353,661</b>	<b>3,364,116</b>	<b>10,455</b>
Cash balance budgeted	-	-	-	-
<b>Total revenues and cash balance budgeted</b>	<b>5,114,958</b>	<b>3,353,661</b>	<b>3,364,116</b>	<b>10,455</b>
<b>Expenditures</b>				
Instruction	4,246,052	2,726,697	2,689,435	(37,262)
Academic support	36,000	18,370	40,720	22,350
Student services	775,777	581,393	576,111	(5,282)
Institutional support	40,129	24,600	49,453	24,853
Oper. & maint. of plant	17,000	2,601	8,397	5,796
<b>Total expenditures</b>	<b>5,114,958</b>	<b>3,353,661</b>	<b>3,364,116</b>	<b>10,455</b>
<b>Change in net assets-budgetary basis</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>(0)</b>

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS  
Year Ended June 30, 2006

Schedule 1  
Page 1 of 2

	Pledged Collateral		Bank of Las Vegas Las Vegas, NM	Wells Fargo Albuquerque NM	State Treasurer Santa Fe, NM	Total
	Safekeeping Location	Type of Security				
Funds on deposit						
Demand deposits			\$ 2,790,125	14,813,223	4,115,431	21,718,779
FDIC insurance						
Demand deposits			(100,000)	(100,000)	-	(200,000)
Total uninsured public funds			\$ 2,690,125	14,713,223	4,115,431	21,518,779
Fifty percent collateral requirement per section 6-10-17 NMSA			1,345,063	7,356,612	N/A (See Note 2)	8,701,675
Pledged collateral						
	Federal Home Loan Bank Dallas Tx	Treasury Note CUSIP #3133X2B46	297,000	-		-
		Treasury Note CUSIP #31339XCAO	195,500	-		
		Treasury Note CUSIP #912828AH3	977,300			
		Treasury Note CUSIP #912828EG1	475,450			
	Federal Reserve Bank	Treasury Note CUSIP #31371KWJ6	-	438,095		
		Treasury Note CUSIP #31385HXE7	-	261,118		
		Treasury Note CUSIP #31385JRT7	-	574,891		
		Treasury Note CUSIP #31385XD95	-	114,131		
		Treasury Note CUSIP #31385XTUI	-	2,240,775		
		Treasury Note CUSIP #31391RP55		215,780		
		Treasury Note CUSIP #31391TWX2		467,108		
		Treasury Note CUSIP #31401DCF6	-	401,176		
		Treasury Note CUSIP #31404BNM0	-	293,359		
		Treasury Note CUSIP #31408BVE5		499,946		
		Treasury Note CUSIP #31408HCE3	-	1,505,615		
		Treasury Note CUSIP #36202DPR6		371,883		
		Treasury Note CUSIP #36202DT76		184,000		
	Wells Fargo Bank NW	Treasury Note CUSIP #31409HAJ3		998,049		
			1,945,250	8,565,926		
Deficiency / (Excess) of pledged collateral over the required amount			\$ (600,187)	(1,209,314)		

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)  
Year Ended June 30, 2006**

**Schedule 1  
Page 2 of 2**

Name of Institution	Account Type	Balance Per Bank Statement	Reconciled Balance Per Books
Cash and Cash Equivalents:			
Bank of Las Vegas			
Account payable account	Checking	\$ 1,640,611	456,909
Payroll account	Checking	904,730	556,453
University wire-transfer account	Checking	67,065	67,065
Cash receipts account	Checking	98,578	107,572
Cashier's credit card account	Checking	70,736	73,635
Direct lending account	Checking	8,405	8,405
<b>Total</b>		2,790,125	1,270,039
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Checking	74,339	74,339
Rio credit card	Checking	100,805	100,914
Savings account	Checking	14,561,342	14,561,342
NMHU business	Checking	76,735	76,735
Online Payments	Checking	2	2
<b>Total</b>		14,813,223	14,813,332
State Treasurer's Office			
Savings account		4,115,431	4,115,431
Petty cash			
		-	10,890
<b>Total cash and cash equivalents</b>		\$ 21,718,779	\$ 20,209,692
Investments:			
State Investment Council		\$ 4,647,109	\$ 4,647,109

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended 30 June 2006**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
<b>Research and Development Cluster</b>			
NASA/-Astrobiology Inst. 8/02-08/05	43.001		31,299
NASA/AMES Stu. Research 12/02-12/05	43.001		19,929
NIH Biomedical Research 6/03-12/03	93.865		2,103
NIH Score Admin. 9/03-8/04	93.375		13,299
NIH/RIMI Mod I 10/04-9/05	93.307		218,267
NIH/RIMI Mod II 10/04-9/05	93.307		45,323
NIH/RIMI Mod III 10/04-9/05	93.307		120,266
NIH/RIMI Mod IV 10/04-9/05	93.307		87,991
NIH/RIMI Mod V 10/04-9/05	93.307		28,767
NIH/RIMI Mod VI 10/04-9/05	93.307		162,371
NSF - MRI Acquisition 9/04-8/07	47.049		354,625
<b>Passed through New Mexico State University</b>			
NMSU INBRE Task I 07/04-06/05	93.389	Q00925	11,172
NMSU INBRE Task II 07/04-06/05	93.389	Q00925	29,522
NMSU INBRE Task III 07/04-06/05	93.389	Q00925	27,348
NMSU-INBRE Task I 7/05-6/06	93.389	Q01022	39,667
NMSU-INBRE Task III 7/05-6/06	93.389	Q01022	127,354
<b>Passed through Arizona State University</b>			
WEASO Fall 2004 8/04-8/05	47.076	KMD5276-7-36/SUB	350
WAESO Spring 2005 1/05-1/06	47.076	KMD5276-7-37/SUB	1,406
WAESO FALL 2005 9/05-9/06	47.076	KMD5276-7-38/SUB	760
WAESO - Spring 2006 01/20/06-10/31/06	47.076	KMD5276-7-39/SUB	1,153
<b>Passed through University of New Mexico</b>			
NM Epscor RII 4/05-3/06	47.076	3-21301-7850	80,529
<b>Passed through Arizona State University</b>			
AAMU Research Institute 12/05-7/06	12.431	W911NF-05-1-04565-SUB 1	15,162
<b>Total Research and Development Cluster</b>			<u>1,418,663</u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 Year Ended 30 June 2006**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
<b>Student Financial Aid Cluster</b>			
Fed W/S - Instruction	84.033		\$ 92,935
Fed W/S - Academic Support	84.033		30,854
Fed W/S Student Services	84.033		62,954
Fed W/S - Institutional Support	84.033		20,305
Fed W/S - Operation & Maint.	84.033		5,970
Fed W/S - Social & Cultural	84.033		32,066
Fed W/S - Public Service	84.033		14,854
Fed W/S - Internal Service	84.033		18,230
Fed W/S - Auxiliaries	84.033		29,247
Fed W/S - Athletics	84.033		11,241
Fed W/S America Reads/America Count	84.033		6,211
Fed Off Campus W/S 2001-2002	84.033		9,736
Federal PELL 1999-2000	84.063		2,990,420
Federal SEOG 1999 - 2000	84.007		<u>186,650</u>
<b>Total Student Financial Aid Cluster</b>			<u><u>3,511,673</u></u>
<b>TRIO Programs Cluster</b>			
Upward Bound 6/03 - 5/04	84.042A		796,818
Support Services 9/03-8/04	84.042A		73,172
Support Services 9/05-8/09	84.047A		<u>386,146</u>
<b>Total TRIO Programs Cluster</b>			<u><u>1,256,136</u></u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 Year Ended 30 June 2006**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
<b>US Department of Education</b>			
Minority Science Engr 10/04-9/05	84.120A		150,854
US Dept Ed/CESDP/Gear up 9/05-8/11	84.334A		281,788
Dept Ed Rehab Counseling 8/04-7/05	84.129B		157,647
San Miguel GEAR-UP 9/03-9/04	84.334A		1,615,053
CAMP-College Assist. Migrant Prog	84.149A		381,728
NMHU Dist. Ed 10/03-9/04	84.031S		334,769
Bilingual Ed. Career Ladder FY04	84195.E		2,844
US Dept of Ed/SWCC-Admin 10/03-9/04	84.283A		125,932
US Dept of Ed/SWCC-Part 10/03-9/04	84.283A		142,442
US Dept of Ed/SWCC-Admin 10/04-6/05	84.283A		194,423
CESDP/Career Ladder Yr4 9/04-8/05	84195.E		133,826
CESDP/Career Ladder Yr 5 9/05-8/06	84.195E		92,278
<b>Passed through New Mexico Public Education Department</b>			
CESDP/SSA Training 1/05-6/05	84.027A	673 / 24108	12,221
<i>Passed through Southwest Educational Development Laboratory</i>			
CESDP/SEDL/TXCC 12/05 - 06/06	84.283B	PO NO.53224	43,065
CESDP/SEDL/SECC 12/05 - 06/06	84.283B	PO NO.53222	43,947
<b>Total US Department of Education</b>			<u>3,712,817</u>
DOC/PTFP/NMHU 10/05-3/07	11.550		<u>17,843</u>
<b>Total US Department of Commerce</b>			



**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 Year Ended 30 June 2006**

Federal Grantor/Program Title	Federal CFDA #	Sub Award #	Expenditures
HU Forest Mangement Prgm 3/03-9/04	10.652		<u>13,475</u>
<b>Total US Bureau of Land Management</b>			
DOI SCEP at NMHU 12/03-12/08	15.FFB		<u>3,321</u>
<b>Total US Department of the Interior</b>			
DHHS/TCEG/SAMHSA	93.243		441,000
Passed Through NM Department of Children Youth and Families			
CYFD SW 7/05-6/06	93.658	JPA 06-690-5000-5008	1,709,149
Passed through NM Human Services Department			
Work Program 7/05-6/06	93.558	GSA 06-630-900-0002	657,911
Passed through University of New Mexico			
PhD/Bridges Program 01-02	93.96	5544	39,631
Passed through National Youth Sports Program Fund			
NYSP Summer 2004 6/05 -7/05	93.570	NYSPF 05:1087	14,198
NYSP Summer 2005 6/05 -7/06	93.570	NYSPF 06:032	<u>29,851</u>
<b>Total US Department of Human Services</b>			<u><u>2,891,740</u></u>
Health Resources & Services Administration, Bureau of Health Professionals			
Passed through University of New Mexico			
UNM Geriatric 02-03	93.969	UNMHSC 4-31311	<u>11,658</u>
<b>Total Federal Awards expended</b>			<u><u><u>12,837,326</u></u></u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
June 30, 2006**

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

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

**NOTE 2. FISCAL PERIOD AUDITED**

Single Audit testing procedures were performed for program transactions occurring during fiscal year June 30, 2006.

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation.* The accompanying Schedule of Expenditures of Federal Awards includes all federal assistance to the University that had activity during 2006 or accrued revenue at June 30, 2006. This schedule has been prepared on the accrual basis of accounting. Revenues are recorded for financial reporting purposes when the Institute has met the qualifications for the respective program.

**NOTE 4. STUDENT FINANCIAL ASSISTANCE**

The University administers the Perkins Loan Program. Total outstanding loans under this US Department of Education program at June 30, 2006, were \$1,202,397. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2006, were \$397,243. The schedule of Federal Expenditures of Federal Awards only includes an amount, which represents administrative costs and additional advances for the year ended June 30, 2006.

During the fiscal year ended June 30, 2006, the University processed \$9,029,997 of new loans under the Stafford Loan Program and Parents' Loans for Undergraduate Students.

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

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

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the State of New Mexico, New Mexico Highlands University (the "University") and the University's budget comparisons as of and for the year ended June 30, 2006, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01, 06-02, 06-03 and 06-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 3-17.

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

*Kardas, Abeyta & Weiner, P.C.*

October 12, 2006

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

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

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

**Compliance**

We have audited the compliance of New Mexico Highlands University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 which is described in the accompanying schedule of findings and questioned costs as items 05-2, 06-05, 06-06, and 06-07.

### **Internal Control Over Compliance**

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

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

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

*Kardas, Abeyta & Weiner, P.C.*

October 12, 2006

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**For The Year Ended June 30, 2006**

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

***Financial Statements***

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

***Federal Awards***

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

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**Schedule of Findings and Questioned Costs**  
**For The Year Ended June 30, 2006**

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

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Cluster	Student Financial Aid Cluster
84.334A	Gaining Early Awareness and Readiness
84.283A	Comprehensive Centers
Cluster	Research and Development Cluster
Cluster	TRIO Cluster
93.658	Foster Care Title IV-E
93.558	Temporary Assistance for Needy Families
93.243	Substance Abuse and Mental Health Services

Dollar threshold used to distinguish between  
type A and type B programs: \$385,120

Auditee qualified as a low-risk auditee? Yes



**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2006**

Finding	Status
03-16 - Human Resources/ Payroll	Resolved
03-17 - Budget Overspending	Modified and Repeated
05-01 - Accrued Liabilities	Resolved
05-02 - Level of Effort	Modified and Repeated
05-03 - Early Release of Financial Statement Info	Resolved

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NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2006**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**03-17 Budget Overspending**

**CONDITION**

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

Instruction and general	\$ 10,455
Student social and cultural	\$ 16,330
Research	\$ 38,486
Public service	\$ 496,083
Internal service department	\$ 10,483
Auxiliary enterprises	\$ 26,543
Intercollegiate athletics	\$ 7,491

**CRITERIA**

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

**CAUSE**

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

**EFFECT**

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

**RECOMMENDATION**

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

**MANAGEMENT RESPONSE**

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

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Year Ended June 30, 2006**

**06-01 - Payroll**

**CONDITION**

During our test work of internal controls over Payroll disbursements, we noted the following:

Of the forty disbursements reviewed:

- Three W-4 forms were not found, one W-4 was not complete
- One voluntary deduction form was not found
- One terminated employee did not have the clearance form signed

**CRITERIA**

The University has established policies and procedures to be adhered to regarding payroll.

**CAUSE**

Due to clerical errors, all of the proper forms were not completed and authorization was not affixed.

**EFFECT**

The University was not in compliance with payroll policies and procedures.

**RECOMMENDATION**

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

**RESPONSE**

In August 2006, procedures were established to ensure that all required Payroll and Human Resources documentation is properly completed and filed.

Employees who leave the university are required to complete a clearance form. In the event the employee fails to complete the form, the employee's last payroll check is placed on hold until a Human Resources representative can process the form and ensure all equipment, keys, etc. have been returned to the university; therefore, this form will not have the employee signature.

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Year Ended June 30, 2006**

**06-02 - Travel and Per Diem**

**CONDITION**

During our test work of internal controls over Travel and Per Diem Disbursements, we noted the following:

Out of the twenty-five travel documents reviewed, three Travel Request forms were not completed the requisite 10 days prior to date of travel for out-of-state travel.

One Travel Request form was not completed the requisite 3 days prior to date of travel for in-state travel.

One Travel Request did not provide a minimum of three quotes for airline travel.

**CRITERIA**

According to the University's travel policy, a set time frame for approval is required. Also airline travel is required to be the lowest price available hence the need for multiple quotes.

**CAUSE**

Due to clerk's failure to check travel requirements, travel request forms were not compliant to in-state and out-of-state travel procedures. The required three quotes for airline travel were not obtained.

**EFFECT**

The University was not compliant with travel and per diem policies.

**RECOMMENDATION**

Personnel responsible for the payment of travel and per diem reimbursement should thoroughly review documentation to ensure that all necessary documentation is present and properly completed.

**RESPONSE**

The Travel Requests are usually prepared by the department within the required time; however due to the time it takes to obtain the proper signatures the paper work may not be received in the Business Office in the time required by policy. If by reviewing the Travel Request, the Business Office can determine that the travel request was submitted in a timely manner and it has all necessary signatures it will be processed as long as it is not after-the-fact. Staff will review the travel policy to address signature requirements and submission time frames as well as the requirement for airline quotes.

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**06-03 – Inventory testing for central storage**

**CONDITION**

During our observation of the inventory taking process at central storage we recounted several of the items for verification purposes. We found 3 instances (22 items recounted) where there was a miscount.

**CRITERIA**

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

**CAUSE**

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

**EFFECT**

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

**RECOMMENDATION**

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

**RESPONSE**

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

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**06-04 – GEAR-UP**

CONDITION

During our test work of internal controls for the GEAR-UP program we found one instance (10 students tested) where a student was paid for 7 hours of work without the proper approval on the students timesheet. We also had 3 instances (6 students tested) where students were able to redeem their points without having written consent from a parent.

CRITERIA

All timesheets need to be approved by a supervisor before a student can be paid. Students are required to get written consent from their parents to enable them to redeem their points for certain “gift” items.

CAUSE

The timesheet was not signed by the supervisor. Consent forms were not obtained.

EFFECT

The GEAR-UP program is not in compliance with payroll policies.

RECOMMENDATION

GEAR-UP program should ensure that timesheets are properly completed. The Payroll Department should not process a timesheet that was not approved by a supervisor

RESPONSE

Upon discovering this error, GEAR-UP changed their computer program towards the end of the year. The feature that notifies personnel whether a student has permission to redeem his points or not was disabled during this change in programs and it was not discovered until a couple weeks later.

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Year Ended June 30, 2006**

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

**05-02 – Level of effort**

**Questioned Costs**

CFDA Number(s) – 93.307

Program Name(s) – NIH/ RIMI

Compliance Requirement – Level of Effort

N/A

**CONDITION**

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

**CRITERIA**

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

**CAUSE**

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

**EFFECT**

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

**RECOMMENDATION**

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

**RESPONSE**

The university continues to monitor all grants that have cost share / in-kind by;

- Maintaining a master spreadsheet of all grants that contain budget, project period, project investigator, and mandatory cost share / in-kind dollars.
- Verifying that cost share /in-kind supporting documentation is being tracked and properly documented by grant fiscal personnel.

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- Reporting match cost on invoices and keeping a copy of the general ledger in the grants file.

In addition, time and effort and donated services certifications will be collected according the following schedule:

- twelve month employee certifications will be collected on a bi-annual basis
- academic year employee certifications will be collected at the end of each semester (summer, fall, spring).



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Year Ended June 30, 2006**

**06-05 – Matching**

**Questioned Costs**

CFDA Number(s) – 93.658

Program Name(s) – CYFD

Pass Through Entity – NM Department of Children Youth and Families

Compliance Requirement – Matching

N/A

**CONDITION**

During our review of matching cost requirements cited in grant documentation we noted that part of the matching costs used related to UNMH personnel's contributed efforts. The documentation supporting this level of effort was missing.

**CRITERIA**

Many grants require a matching of costs to varying degrees. The match may be in the form of direct expenditures or an allocation of effort. All level of effort matches must be supported by proper documentation.

**CAUSE**

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

**EFFECT**

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

**RECOMMENDATION**

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

**RESPONSE**

The university continues to monitor all grants that have cost share / in-kind by;

- Maintaining a master spreadsheet of all grants that contain budget, project period, project investigator, and mandatory cost share / in-kind dollars.
- Verifying that cost share /in-kind supporting documentation is being tracked and properly documented by grant fiscal personnel.

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- Reporting match cost on invoices and keeping a copy of the general ledger in the grants file.

In addition, time and effort and donated services certifications will be collected according the following schedule:

- twelve month employee certifications will be collected on a bi-annual basis
- academic year employee certifications will be collected at the end of each semester (summer, fall, spring).

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Year Ended June 30, 2006**

**06-06 – Tutoring services**

**Questioned Costs**

CFDA Number(s) – 84.149A

Program Name(s) – CAMP

Compliance Requirement – Unallowable Costs

N/A

**CONDITION**

During our review of the CAMP program we found that tutors hired by CAMP to provide services to CAMP participants are also spending a lot of their time tutoring students who are not participants in the CAMP program.

**CRITERIA**

Part of the grant money that the program receives is designated to hire and pay tutors to provide tutoring services to CAMP participants.

**CAUSE**

Tutors are hired for certain hours to be available to deliver tutoring services to CAMP participants. Most of the time very few CAMP participants show up for tutoring services and the director thus gave the tutors permission to provide tutoring services to regular students when there are no CAMP participants.

**EFFECT**

Grant money is used to pay for services that are provided to students who are not participating in the program and this could result in the grantor agency requesting that a portion of the grant be returned.

**RECOMMENDATION**

Contact the grantor agency and ask for permission to deliver services to the non-CAMP students when there are no CAMP students or ask the University to provide funds to the program for delivering tutoring services to the non-CAMP participants.

**RESPONSE**

In the future, if the CAMP program is reinstated, we will request authorization to provide services to non-CAMP students during the down-time period. If authorization is not secured, we will cease this practice.

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**06-07– Student Support Services**

**Questioned Costs**

CFDA Number(s) – 84.149A

Program Name(s) – Student Support Services

Compliance Requirement – Reporting

**N/A**

**CONDITION**

During our testing of the Student Support Services participant list we found 3 students (15 tested) who were listed incorrectly on the list. All three students were listed as low-income **and** first generation, but we found that in each instance they were only low-income **or** first generation.

**CRITERIA**

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

**CAUSE**

The Student Support Services list was completed with incorrect information.

**EFFECT**

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

**RECOMMENDATION**

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

**RESPONSE**

The Director will work with the Vice President for Student Affairs to enhance the interview process by which the participants' eligibility criteria is collected and coded and train staff in the procedure. Currently, staff has reviewed each of the program participant files and checked eligibility criteria for accuracy with the following result: of a total of 382 program participants, 285 are low-income and first generation or disabled. This number represents 74.6% of the active program participants for the 2006-07 academic year.

**STATE OF NEW MEXICO  
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EXIT CONFERENCE  
June 30, 2006**

Exit conference was held on November 8, 2006 with the following in attendance:

University:

Ricky Serna, Member, Board of Regents  
Dr. Manuel T. Pacheco, President  
Domingo Sanchez, Interim Vice President for Finance & Administrative Services  
Ms. Grace Montoya, Controller  
Ms. Donna Castro, Interim Director, Human Resources  
Jesus E. Baquera, Assistant Controller  
Ms. Geraldine Chavez, Director of Purchasing  
Phil Escue, IT Services Network Engineer  
Shay Bassett, IT Services, Application System Manager

Foundation:

Ray Litherland, Treasurer  
Ms. Darlene Chavez, Finance Officer

Auditors

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