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

FINANCIAL STATEMENTS

JUNE 30, 2002

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STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

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NEW MEXICO HIGHLANDS UNIVERSITY

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STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

Official Roster

June 30, 2002

Board of Regents

Name	Title
Elmer Salazar	Chair
S. Peter Bickley, Jr.	Vice Chair
Roger Gonzales	Secretary/Treasurer
Vivian Santistevan	Member
John Loehr	Member

Administrative Officials

Jim Fries	Interim President
Glen Davidson	Provost
Vacant	VP of Finance/Comptroller
David Janson	Special Assistant to the President of Finance



Independent Auditors' Report

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Elmer Salazar, Chair
To The Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We have audited the accompanying general-purpose financial statements of the New Mexico Highlands University (University), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, 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 opinion.

On July 1, 1999, the University began a data processing system conversion. During the conversion, grant receivables and deferred revenues, part of fund balance, of approximately \$528,000 and \$176,000, respectively, were consolidated. Additionally, approximately \$465,000 of deferred revenue (fund balance) and \$1,230,000 of grants receivable arising in fiscal years 2000 and 2001 were not adequately accounted for. These grants are research and development and non-major programs recorded in the Current Restricted Funds. The University is unable to determine the accuracy of deferred revenues and receivables as well as any amounts due back to grantors or any uncollectible amounts until research with the appropriate grantors is completed.



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

In our opinion, except for the possible effect of the matters discussed in the preceding paragraph the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the New Mexico Highlands University as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the University, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Schedule 8) 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*, and is not a required part of the general-purpose financial statements. In addition, the supplementary information included in Schedules 1 through 7 and 9 through 10 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, except for the possible effect of the matters discussed in paragraph three above, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Neff + Ricci LLP

Albuquerque, New Mexico
October 30, 2002

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 COMBINED BALANCE SHEET
 June 30, 2002

	Current Funds		Loan Funds	Endowment Funds
	Unrestricted Funds	Restricted Funds		
ASSETS				
Cash	\$ 1,211,308	-	-	-
Investments	-	-	-	1,658,263
Accounts receivable	3,010,569	-	-	10,017
Grant and contract receivables	-	3,371,051	-	-
Loans receivable	-	-	1,266,483	-
Less allowance for doubtful accounts	(2,022,815)	(29,244)	-	-
Equity in bank	1,089,143	-	173,142	-
Inventories	642,810	-	-	-
Prepaid expenses	40,771	2,275	-	-
Deposits	-	-	10,000	-
Property, buildings, and equipment:				
Land	-	-	-	-
Buildings	-	-	-	-
Capital improvements	-	-	-	-
Equipment	-	-	-	-
Books	-	-	-	-
Automotive	-	-	-	-
Construction in progress	-	-	-	-
Total assets	\$ 3,971,786	3,344,082	1,449,625	1,668,280
LIABILITIES				
Accounts payable	634,986	820,753	325	-
Accrued liabilities	2,295,892	-	-	-
Student deposits	26,518	-	-	-
Deferred income	821,465	-	1,145	-
Due to bank fund	-	1,276,381	-	4,631
Notes payable	1,596,393	-	-	-
Capital leases payable	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	5,375,254	2,097,134	1,470	4,631
FUND BALANCES (Deficit)				
Unrestricted	(1,403,468)	-	1,448,155	-
Restricted	-	1,246,948	-	-
Endowment	-	-	-	1,663,649
Net investment in plant	-	-	-	-
Total fund balances (deficit)	(1,403,468)	1,246,948	1,448,155	1,663,649
Total liabilities and fund balance	\$ 3,971,786	3,344,082	1,449,625	1,668,280

See Notes to Financial Statements.

Plant Funds					
Unex- pended	Renewals & Replace- ments	Retirement of Indeb- tedness	Investment In Plant	Agency Funds	Total All Funds
\$ -	-	-	-	-	1,211,308
-	-	-	-	-	1,658,263
-	-	-	-	51,422	3,072,008
1,385,157	-	-	-	-	4,756,208
-	-	-	-	-	1,266,483
-	-	-	-	-	(2,052,059)
-	461,607	628,782	300,187	-	2,652,861
-	-	-	-	-	642,810
-	-	484,896	-	-	527,942
-	-	-	-	-	10,000
-	-	-	1,915,932	-	1,915,932
-	-	-	55,728,110	-	55,728,110
-	-	-	11,347,567	-	11,347,567
-	-	-	566,491	-	566,491
-	-	-	5,147,856	-	5,147,856
-	-	-	6,604,438	-	6,604,438
-	-	-	2,860,653	-	2,860,653
<u>\$ 1,385,157</u>	<u>461,607</u>	<u>1,113,678</u>	<u>84,471,234</u>	<u>51,422</u>	<u>97,916,871</u>
592,837	240,508	16,906	-	-	2,306,315
-	-	-	-	-	2,295,892
-	-	-	-	-	26,518
-	-	-	-	-	822,610
1,320,427	-	-	-	51,422	2,652,861
-	-	-	381,362	-	1,977,755
-	-	-	274,691	-	274,691
-	-	-	7,295,000	-	7,295,000
<u>1,913,264</u>	<u>240,508</u>	<u>16,906</u>	<u>7,951,053</u>	<u>51,422</u>	<u>17,651,642</u>
(528,107)	221,099	1,096,772	-	-	834,451
-	-	-	-	-	1,246,948
-	-	-	-	-	1,663,649
-	-	-	76,520,181	-	76,520,181
<u>(528,107)</u>	<u>221,099</u>	<u>1,096,772</u>	<u>76,520,181</u>	<u>-</u>	<u>80,265,229</u>
<u>\$ 1,385,157</u>	<u>461,607</u>	<u>1,113,678</u>	<u>84,471,234</u>	<u>51,422</u>	<u>97,916,871</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 COMBINED STATEMENT OF CHANGES IN FUND BALANCES
 For the Year Ended June 30, 2002

	Current Funds		Loan Funds	Endowment Funds
	Unrestricted Funds	Restricted Funds		
Revenue and other additions				
Current funds revenues (Exh. C)	\$ 32,320,259	19,878,726	-	-
Student fees	-	-	59,147	-
Gifts, grants, and contracts-restricted:				
federal, state and private	-	-	1,285,058	-
Investment income, net	-	-	(215,475)	(142,225)
U.S. government advance for student loans	-	-	4,776,499	-
Other	-	-	296,389	-
Total additions	32,320,259	19,878,726	6,201,618	(142,225)
Expenditures and other deductions				
Current funds expenditures (Exh. C)	29,094,998	20,645,019	-	-
Loans to students	-	-	6,200,070	-
Administrative and collection costs	-	-	-	17,697
Expended for plant facilities	-	-	-	-
Renewals and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Scholarships	-	-	-	24,854
Total deductions	29,094,998	20,645,019	6,200,070	42,551
Transfers Among Funds - Additions (Deductions)				
Nonmandatory	(2,179,817)	55,039	(55,039)	-
Net increase (decrease) for the year	1,045,444	(711,254)	(53,491)	(184,776)
Fund balance - June 30, 2001	(1,251,322)	1,958,202	1,501,646	1,848,425
Prior period adjustments	(1,197,590)	-	-	-
Ending fund balance - July 1, 2001	(2,448,912)	1,958,202	1,501,646	1,848,425
Fund balance - end of year	\$ (1,403,468)	1,246,948	1,448,155	1,663,649

See Notes to Financial Statements.

Plant Funds				
Unex- pended	Renewals & Replac- ements	Retirement of Indeb- tedness	Investment In Plant	Total All Funds
\$ -	-	-	-	52,198,985
-	-	449,257	-	508,404
1,558,734	-	-	-	2,843,792
(14,071)	-	-	-	(371,771)
-	-	-	-	4,776,499
-	-	-	3,620,602	3,916,991
1,544,663	-	449,257	3,620,602	63,872,900
-	-	-	-	49,740,017
-	-	-	-	6,200,070
-	-	-	-	17,697
1,669,132	-	-	-	1,669,132
-	963,969	-	-	963,969
-	-	1,458,409	-	1,458,409
-	-	-	-	24,854
1,669,132	963,969	1,458,409	-	60,074,148
9,442	1,193,820	985,997	-	9,442
(115,027)	229,851	(23,155)	3,620,602	3,808,194
(640,936)	(8,752)	1,398,409	72,621,117	77,426,789
227,856	-	(278,482)	278,462	(969,754)
(413,080)	(8,752)	1,119,927	72,899,579	76,457,035
\$ (528,107)	221,099	1,096,772	76,520,181	80,265,229

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 COMBINED STATEMENT OF CURRENT FUNDS
 REVENUES, EXPENDITURES AND OTHER CHANGES
 For the Year Ended June 30, 2002

Exhibit C
 Page 1 of 2

	Unrestricted	Restricted	Total All Funds
Revenues			
Instruction and general:			
Tuition and fees	\$ 5,167,892	-	5,167,892
State appropriations	19,475,300	-	19,475,300
Federal grants and contracts	-	2,902,763	2,902,763
State grants and contracts	-	2,336,651	2,336,651
Private gifts and grants	37	444,857	444,894
Land and Permanent Fund Income	137,913	-	137,913
Sales and services	123,926	30,347	154,273
Other	1,902,728	10	1,902,738
Subtotal	26,807,796	5,714,628	32,522,424
Other:			
State appropriations	2,137,800	-	2,137,800
Federal grants and contracts	-	8,794,434	8,794,434
State grants and contracts	-	3,656,222	3,656,222
Private gifts and grants	10,774	1,646,759	1,657,533
Fees	423,561	-	423,561
Sales and services	2,676,841	15,865	2,692,706
Other	263,487	50,818	314,305
Total revenues	32,320,259	19,878,726	52,198,985
Expenditures			
Instructional and general:			
Instruction	12,124,360	5,394,973	17,519,333
Academic support	2,437,587	120,452	2,558,039
Student services	2,140,812	731,889	2,872,701
Institutional support	3,536,964	85,649	3,622,613
Operations and maintenance	3,481,650	8,316	3,489,966
Subtotal	23,721,373	6,341,279	30,062,652

See Notes to Financial Statements.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 COMBINED STATEMENT OF CURRENT FUNDS
 REVENUES, EXPENDITURES AND OTHER CHANGES (CONTINUED)
 For the Year Ended June 30, 2002

	Unrestricted	Restricted	Total All Funds
Other:			
Student social and cultural	335,043	15,310	350,353
Research	638,401	3,350,245	3,988,646
Public service	780,864	6,234,562	7,015,426
Internal service departments	(187,702)	12,530	(175,172)
Student aid	304,416	4,646,162	4,950,578
Auxiliary enterprises	2,159,169	44,931	2,204,100
Intercollegiate athletics	1,343,434	-	1,343,434
	<hr/>	<hr/>	<hr/>
Total expenditures	29,094,998	20,645,019	49,740,017
	<hr/>	<hr/>	<hr/>
Transfers			
Nonmandatory transfers	(2,179,817)	55,039	(2,124,778)
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in fund balance	\$ 1,045,444	(711,254)	334,190
	<hr/>	<hr/>	<hr/>

See Notes to Financial Statements.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund Accounting. In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Description of Funds:

Current Funds include the economic resources of the University that are legally expendable for current operational purposes in performing the primary objectives of the University. *Unrestricted Current Funds* consist of those operating funds over which the governing board retains full control to use in achieving any of its authorized purposes. *Restricted Current Funds* represent those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. Restricted current funds are recorded as revenue in the period in which such funds are expended.

Student Loan Funds consist of loans to students and resources designated by the governing board or restricted by outside sources for loans to University students. Terms of the loan agreements usually specify that repayments of principal and interest are loaned to other eligible students. The fund balance refundable to the U.S. Government represents loans receivable, which were funded by grants from the U.S. Government.

Endowment Funds are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity to be invested and that only income from investment of principal be utilized. The University has received endowments whose income is used to fund scholarships, fellowships and professorships. Endowment

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Funds are primarily invested in cash and cash equivalents, fixed income securities and other equities. Contributions of land, equipment, and securities are recorded at their estimated fair market value at the date of the gift.

Term-Endowment Funds are similar to endowment funds, except that after a stated period of time or a particular occurrence, all or part of the principal may be expended.

The University additionally receives income monthly from University lands under the control of the Commissioner of Public Lands and from the University's undivided interest in the State of New Mexico permanent fund. No value has been assigned and no asset recorded in the accompanying financial statements for the University lands under the control of the Commissioner of Public Lands. Income from public lands is recorded as unrestricted current funds revenue. The permanent fund was created by the New Mexico Legislature with funds from the severance taxes on the extraction of non-renewable natural resources. By Statute, permanent fund principal is to remain intact; income from investing the fund is to be used to finance public schools and public higher education.

Plant Funds are used to account for transactions relating to investment in University properties. *Unexpended Plant Funds* include funds specifically identified and formally committed for use in the construction or acquisition of long-lived capital assets and associated liabilities, but unexpended at the reporting date. *Renewal and Replacement Plant Funds* have been set aside for the renewal and replacement of physical properties. *Retirement of Debt Plant Funds* have been set aside to retire indebtedness incurred in connection with the acquisition or construction of physical assets. *Investment in Plant Funds* includes all long-lasting assets in the service of the University, including construction-in-process, and the associated liabilities.

Plant assets acquired with proceeds of federal and state grants and contracts are not recorded as assets of the University unless and until title for these assets has been transferred to the University.

The University's investment in plant is stated at acquisition cost or fair market value at date of gift. Assets disposed of are removed from the asset accounts at the time of disposition. As allowed by accounting principles generally accepted in the United States of America for governmental colleges and universities, depreciation of plant assets is not reflected in the accompanying financial statements.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Agency Funds are used to account for the assets held by the University as custodian or fiscal agent for individuals and organizations; therefore, the transactions of this fund do not affect the Statement of Changes in Fund Balances.

Basis of Accounting. The financial statements and budgetary schedules of New Mexico Highlands University have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities as set forth in the AICPA College Guide model as defined in GASB Statement No. 15. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of operating funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses. The combined financial statements are not comparable to a consolidated financial statement since interfund eliminations have not been made.

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

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

Procedures for Approval of Operating Budgets

1. The institution submits an original typed copy that has been approved by the institution's regents to the CHE's office.
2. The CHE meets in June and acts on approval of the budgets.
3. The budgets, as approved by the CHE, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for appropriation by the University in subsequent years.

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

Investments. Investments are recorded at market value in accordance with General Accounting Board Standard 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Investments received by gifts are carried at market value at the date of acquisition.

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

Ordinary income derived from investments is accounted for in the fund owning such assets, except for unrestricted income derived from investments of endowment and similar funds and unexpended plant funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, in the unrestricted current fund. Changes in the market value of investments are accounted for in the fund which owns such assets.

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

Accounts Receivable. The University records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses.

Restricted current accounts receivable consist of unreimbursed expenditures on federal, state and private grants.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

Investment in Plant. Physical plant and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Additionally, certain items of property and equipment are valued at the estimated replacement cost where original cost could not be determined. Depreciation on physical plant and equipment is not reflected in the accompanying financial statements.

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 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30.

Significant Concentration of Credit Risk. The University is dependent on state funding for its operating budget as well as tuition payments from students. In addition, the University receives the majority of its restricted revenues from federal sources.

Preparation of Financial Statements. The financial statements and notes to the financial statements were prepared by our auditors.

NOTE 2. CASH AND CASH EQUIVALENTS

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

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

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

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Depository	Insured and Collateralized	Uninsured and Uncollateralized	Total
Bank of Las Vegas	\$1,811,743	-	1,811,743
Wells Fargo Bank	<u>162,616</u>	<u>-</u>	<u>162,616</u>
	<u>\$1,974,359</u>	<u>-</u>	<u>1,974,359</u>

NOTE 3. INVESTMENTS

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

Stocks, Bonds, and Similar Investments. In addition to sharing in the pooled cash and investments, the endowment fund and special investment account portfolio contains stocks, bonds, and similar investments of \$1,658,263 (cost of \$1,766,091).

A summary of the University's investments at June 30, 2002, by category of credit risk described below, is as follows:

Investments	Category 1	Category 2	Cost	Market Value
United States Treasury				
Bills	\$ 425,742	-	425,742	464,323
Stocks and Bonds	<u>-</u>	<u>1,340,349</u>	<u>1,340,349</u>	<u>1,193,940</u>
	<u>\$ 425,742</u>	<u>1,340,349</u>	<u>1,766,091</u>	<u>1,658,263</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002

NOTE 3. INVESTMENTS (CONTINUED)

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

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

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Plant assets consisting of land, land improvements, buildings, equipment and furnishings, and books and periodicals are stated at cost, or if contributed, at fair market value at the date of gift. Depreciation on property, plant, and equipment is not recorded.

Changes in property, plant, and equipment for the year ended June 30, 2002 were as follows:

	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
Land	\$ 1,915,932	-	-	1,915,932
Buildings	55,681,616	46,494	-	55,728,110
Land Improvements	2,860,653	-	-	2,860,653
Equipment & Furnishings	10,594,401	1,016,883	263,717	11,347,567
Books & Periodicals	6,468,168	420,512	284,242	6,604,438
Automotive	566,491	-	-	566,491
Construction in Progress	3,355,767	2,206,818	414,729	5,147,856
	<u>\$ 81,443,028</u>	<u>3,690,707</u>	<u>962,688</u>	<u>84,171,047</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 5. NOTES PAYABLE

New Mexico Highlands University has a note payable with a bank the purpose of which was used to pay off existing real property indebtedness. Additionally, the University signed an overdraft protection agreement with The Bank of Las Vegas in June 2000. On July 31, 2001, the University changed the agreement into a one-year term note.

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

Investment in Plant Fund

Note payable with a bank, payable on
November 18, 2002 with interest only
payments quarterly at 4.75% per annum. \$ 381,352

Current Unrestricted

One year note with a bank, payable on
July 31, 2002 with interest only
Payments quarterly at 6.25% per annum.
The note is secured with real estate \$ 1,596,393

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

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002

NOTE 6. BONDS PAYABLE – REFUNDING AND CONSTRUCTION
 (CONTINUED)

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,
2003	665,000	326,913	991,913
2004	700,000	298,650	998,650
2005	735,000	268,200	1,003,200
2006	770,000	235,860	1,005,860
2007	805,000	201,980	1,006,980
2008	845,000	165,755	1,010,755
2009	885,000	127,730	1,012,730
2010	925,000	87,905	1,012,905
2011	965,000	45,355	1,010,355
	<u>\$ 7,295,000</u>	<u>1,758,348</u>	<u>9,053,348</u>

NOTE 7. RISK MANAGEMENT

Self Insurance Plan - The University has a self insurance plan for employee medical coverage. They limit their risk of liability with a stop-loss policy, which continues coverage for any participant with claims from an individual occurrence in excess of \$30,000. The liability for claims incurred as of June 30, 2002 was \$66,545. The deficiency in amounts collected from the University and its covered employees for payment of health claims as of June 30, 2002 was \$557,763. The following reconciles the activity in the liability during the year:

Liability for claims as of June 30, 2001	\$ (487,181)
Premiums collected by the University and covered participants	2,041,823
Claims paid during the year	(1,649,788)
Administrative fees paid during the year	<u>(396,072)</u>
Deficiency premiums collected as of June 30, 2002	(491,218)
Unpaid claims incurred as of June 30, 2002	<u>66,545</u>
Deficiency of premiums to pay current claims	<u>\$ (557,763)</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 7. RISK MANAGEMENT (CONTINUED)

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. ERA PENSION PLAN

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 (ERA) 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. ERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERA, PO Box 26129, Santa Fe, New Mexico 87502.

Funding Policy. Plan members are required to contribute 7.6% of their gross salary. The New Mexico Highlands University is required to contribute 8.65% of the gross covered salary. The contribution requirements of plan members and the New Mexico Highlands University are established in Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The New Mexico Highlands University's contributions to ERA for the years ending June 30, 2002, June 30, 2001, and 2000 were \$2,687,804, \$2,846,945, and \$2,659,804, respectively, equal to the amount of the required contribution for each year.

NOTE 9. ALTERNATIVE RETIREMENT PLAN

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan. With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 5.65% to the carrier selected by the employee. The employee contributes 7.6% of his/her gross salary to the carrier they select. Contributions by the University totaled \$84,450 to the ERA for the alternative plan and \$159,122 to the various carriers for the year ended June 30, 2002. Employees contributed \$214,099 to the various carriers under the alternative plan during the year ended June 30, 2002.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002

NOTE 10. POST EMPLOYMENT BENEFITS

The Retiree Health Care Act (ACT) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. 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 paid into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 810 W. San Mateo Rd., Santa Fe, NM 87505.

For the fiscal year ended June 30, 2002, the New Mexico Highlands University remitted \$193,550 in employer contributions and \$96,775 in employee contributions to the Retiree Health Care Authority.

NOTE 11. LEASES

At June 30, 2002, the University had various lease arrangements summarized as follows:

University as Lessee

Capital Leases. The University leases certain telephone and computer equipment under capital lease agreements. The telephone is leased for 5 years with monthly payments of \$7,541 including interest at 13.1%. The computer equipment is leased for 5 years with monthly payments of \$15,748 including interest at 10.88%. These assets are reported as equipment on the accompanying balance sheet as follows:

Computer equipment and software	\$ 726,295
Telephone equipment	<u>330,686</u>
	<u>\$ 1,056,981</u>

Operating Leases. Rent expense for operating leases amounted to \$220,889 for the year ended June 30, 2002.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002

NOTE 11. LEASES (CONTINUED)

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2002:

Year Ending June 30	Capital Leases	Operating Leases
2003	\$ 203,341	249,641
2004	94,488	249,641
2005	-	249,641
2006	-	249,647
2007	-	249,647
Thereafter	-	<u>1,603,724</u>
		<u>\$ 2,851,929</u>
Less amount representing Interest	<u>23,138</u>	
	<u>\$ 274,691</u>	

NOTE 12. LITIGATION

There are several pending and/or threatened lawsuits in which the University is involved. These matters are insured by the Risk Management Division of the General Services Department. The University's attorney estimates that the potential claims against the University not covered by insurance resulting from such litigation would not materially affect the financial statements of the University. After year end, the former president filed a \$175,000 lawsuit against the University. The Risk Management Division will not insure against the suit. The result of this litigation cannot be determined at this time.

NOTE 13. COMMITMENTS

At June 30, 2002, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Unrestricted Current Funds	<u>\$ 309,668</u>
Plant Funds	<u>\$ 325,392</u>

There were no significant construction contracts entered into by the University at June 30, 2002 that were not substantially done.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 14. DEFICIT FUND BALANCE

The unexpended plant fund and current unrestricted funds have an accumulated deficit fund balance through June 30, 2002 of \$528,107 and \$1,403,468 respectively.

The University's unrestricted current funds unreserved and undesignated fund deficit is as follows:

Total fund deficit	\$ 1,403,468
Less fund balance reserved for inventories	642,810
Less fund balance reserved for prepaid expenses	<u>40,771</u>
Fund deficit unreserved/undesignated	<u>\$ 2,087,049</u>

NOTE 15. INTERFUND CASH

When the University implemented its new general ledger software application on July 1, 1999, it no longer recorded individual bank accounts as accounts in individual funds but combined them into a single bank fund and disbursed the cash in the bank fund to the other funds using inter-fund cash accounts. The University also had inter-fund due to/from accounts recorded as of June 30, 1999. The balances in the due to/from accounts were combined into the new inter-fund cash accounts. Banner handles interfund transactions using a claim on cash concept. Cash is handled in a Bank fund, with separate cash account for each physical bank account. A claim on cash (cash interfund) account replaces the cash in each separate fund and represents the amount of total cash owed to, or from each fund by the bank fund.

NOTE 16. SUBSEQUENT EVENT

The University refinanced a short term loan with The Bank of Las Vegas on July 26, 2002. The loan is for a period of five years with a variable interest rate of .5% under the National Prime Lending Rate and a maturity date of July 30, 2007. The loan requires monthly payments of \$16,403, including interest with a balloon payment of \$900,202, due July 30, 2007. The note is secured by real estate purchased with non-governmental funds.

NOTE 17. PRIOR PERIOD ADJUSTMENTS

Current Unrestricted Adjustments were recorded to correct the allowance for doubtful accounts for \$579,351 and \$618,239 to correct the restricted grant receivable and deferred revenue balances related to old or inactive grants.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 17. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Unexpended Plant Fund. An adjustment was made to properly recognize a \$227,856 receivable previously unrecorded.

Retirement of Indebtedness An adjustment of \$278,482 to correct a transfer of bond payable that was recorded on the University's financial statements as a transfer to the Investment in Plant Fund.

Investment in Plant. An adjustment of 278,482 was made to correct a transfer of bond payable from the retirement of indebtedness that was recorded on the University's financial statements.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 UNRESTRICTED CURRENT FUNDS
 REVENUES, EXPENDITURES, TRANSFERS
 AND BEGINNING AND ENDING BALANCES
 BUDGET COMPARISONS
 For the Year Ended June 30, 2002

	Budget	Actual	Actual Over (Under) Budget
Beginning Balances			
Instruction and general	\$ 662,609	(2,091,611)	(2,754,220)
Student social and cultural	32,397	66,785	34,388
Research	305,565	157,206	(148,359)
Public service	290,472	265,282	(25,190)
Internal service departments	(102,562)	(85,178)	17,384
Student aid	940	(20,943)	(21,883)
Auxiliary enterprises	22,077	(275,737)	(297,814)
Intercollegiate athletics	(561,216)	(464,716)	96,500
Total beginning balances	650,282	(2,448,912)	(3,099,194)
Revenues			
Instruction and general	26,618,346	26,807,796	189,450
Student social and cultural	322,071	323,600	1,529
Research	11,720	109,731	98,011
Public service	778,850	798,850	20,000
Internal service departments	44,628	51,796	7,168
Student aid	135,000	-	(135,000)
Auxiliary enterprises	2,547,667	2,732,971	185,304
Intercollegiate athletics	1,492,778	1,495,515	2,737
Total revenues	31,951,060	32,320,259	369,199
Total Available			
Instructional and general	27,280,955	24,716,185 +	(2,564,770)
Student social and cultural	354,468	390,385	35,917
Research	317,285	266,937	(50,348)
Public service	1,069,322	1,064,132	(5,190)
Internal service departments	(57,934)	(33,382)	24,552
Student aid	135,940	(20,943)	(156,883)
Auxiliary enterprises	2,569,744	2,457,234	(112,510)
Intercollegiate athletics	931,562	1,030,799	99,237
Total available	32,601,342	29,871,347	(2,729,995)

See Notes to Financial Statements.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 UNRESTRICTED CURRENT FUNDS
 REVENUES, EXPENDITURES, TRANSFERS
 AND BEGINNING AND ENDING BALANCES
 BUDGET COMPARISONS (CONTINUED)
 For the Year Ended June 30, 2002

	Budget	Actual	Actual Over (Under) Budget
Expenditures			
Instruction and general	\$ 24,009,911	23,721,373	(288,538)
Student social and cultural	336,385	335,043	(1,342)
Research	702,930	638,401	(64,529)
Public service	774,422	780,864	6,442
Internal service departments	457,213	(187,702)	(644,915)
Student aid	316,120	304,416	(11,704)
Auxiliary enterprises	2,032,595	2,159,169	126,574
Intercollegiate athletics	1,383,715	1,343,434	(40,281)
Total expenditures	30,013,291	29,094,998	(918,293)
Transfers (to) or From			
Instruction and general	(2,249,942)	(2,296,168)	(46,226)
Research	806,596	806,596	-
Public service	38,724	38,725	1
Internal service departments	-	(279,475)	(279,475)
Student aid	194,420	216,120	21,700
Auxiliary enterprises	(665,615)	(665,615)	-
Intercollegiate athletics	-	-	-
Total net transfers	(1,875,817)	(2,179,817)	(304,000)
Ending Balances			
Instructional and general	1,021,102	(1,301,356)	(2,322,458)
Student social and cultural	18,083	861,938	843,855
Research	420,951	(332,739)	(753,690)
Public service	333,624	3,793	(329,831)
Internal service departments	(515,147)	370,440	885,587
Student aid	14,240	(990,974)	(1,005,214)
Auxiliary enterprises	(128,466)	298,065	426,531
Intercollegiate athletics	(452,153)	(312,635)	139,518
Total ending balances	\$ 712,234	(1,403,468)	(2,115,702)

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 UNRESTRICTED CURRENT FUNDS
 INSTRUCTION AND GENERAL
 REVENUES, EXPENDITURES, TRANSFERS
 AND BEGINNING AND ENDING BALANCES
 BUDGET COMPARISONS
 For the Year Ended June 30, 2002

	Budget	Actual	Actual Over (Under) Budget
Beginning Balances	662,609	(2,091,611)	(2,754,220)
Revenues			
Tuition and miscellaneous	\$ 5,052,059	5,167,892	115,833
State appropriations	19,475,200	19,475,300	100
Federal grants and contracts	-	-	-
Private gifts and grants	-	37	37
Endowment, land and permanent fund	137,689	137,913	224
Sales and service	85,000	123,926	38,926
Other sources	1,868,398	1,902,728	34,330
Total revenues	26,618,346	26,807,796	189,450
Total Available	27,280,955	24,716,185	(2,564,770)
Expenditures			
Instruction	12,231,197	12,124,360	(106,837)
Academic support	2,330,617	2,437,587	106,970
Student services	2,011,597	2,140,812	129,215
Institutional support	3,896,401	3,536,964	(359,437)
Operation and maintenance of plant	3,540,099	3,481,650	(58,449)
Total expenditures	24,009,911	23,721,373	(288,538)
Transfers (to) or From			
Mandatory transfers	(62,211)	(62,211)	-
Nonmandatory transfers	(2,190,144)	(2,233,957)	(43,813)
Total net transfers	(2,252,355)	(2,296,168)	(43,813)
Ending Balance	\$ 1,018,689	(1,301,356)	(2,320,045)

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 RESTRICTED CURRENT FUNDS
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 For the Year Ended June 30, 2002

Schedule 3

	Budget	Actual	Actual Over (Under) Budget
Revenues			
Instruction and general	3,400,000	5,714,628	(2,314,628)
Student social and cultural	32,000	20,393	11,607
Research	12,000,000	2,994,195	9,005,805
Public service	9,000,000	6,410,152	2,589,848
Internal service departments	20,000	47,460	(27,460)
Student aid	3,600,000	4,658,661	(1,058,661)
Auxiliary enterprises	100,000	33,237	66,763
Intercollegiate athletics	15,000	-	15,000
	<hr/>	<hr/>	<hr/>
Total revenues	\$ 28,167,000	19,878,726	8,288,274
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Expenditures			
Instruction and general	3,400,000	6,341,279	2,941,279
Student social and cultural	32,000	15,310	(16,690)
Research	12,000,000	3,350,245	(8,649,755)
Public service	9,000,000	6,234,562	(2,765,438)
Internal service departments	20,000	12,530	(7,470)
Student aid	3,600,000	4,646,162	1,046,162
Auxiliary enterprises	100,000	44,931	(55,069)
Intercollegiate athletics	15,000	-	(15,000)
	<hr/>	<hr/>	<hr/>
Total expenditures	\$ 28,167,000	20,645,019	(7,521,981)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 RESTRICTED CURRENT FUNDS
 INSTRUCTION AND GENERAL
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 For the Year Ended June 30, 2002

Schedule 4

	Budget	Actual	Actual Over (Under) Budget
Revenues			
Federal grants and contracts	900,000	2,902,763	(2,002,763)
State grants and contracts	2,000,000	2,336,651	(336,651)
Private gifts and grants	500,000	444,857	55,143
Other	-	30,357	(30,357)
	<hr/>		
Total revenues	\$ 3,400,000	5,714,628	(2,314,628)
	<hr/>		
Expenditures			
Instruction	2,396,000	5,394,973	2,998,973
Academic support	300,000	120,452	(179,548)
Student services	600,000	731,889	131,889
Institutional support	80,000	85,649	5,649
Operation and maintenance of plant	24,000	8,316	(15,684)
	<hr/>		
Total expenditures	\$ 3,400,000	6,341,279	2,941,279
	<hr/>		

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 PLANT FUNDS
 RESTRICTED AND UNRESTRICTED
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 For the Year Ended June 30, 2002

Schedule 5

	Budget	Actual	Actual Over (Under) Budget
Beginning Balances			
Capital Outlay	\$ -	(413,080)	(413,080)
Renewals and replacements	(102,066)	(8,752)	93,314
Retirement of indebtedness	1,230,994	1,119,927	(111,067)
	<u>1,128,928</u>	<u>698,095</u>	<u>(430,833)</u>
Revenues and Transfers			
Unexpended (capital outlay)	2,618,328	1,544,663	(1,073,665)
Renewal and replacement	-	-	-
Retirement of indebtedness	482,000	449,257	(32,743)
	<u>3,100,328</u>	<u>1,993,920</u>	<u>(1,106,408)</u>
Total revenues			
Expenditures			
Unexpended (capital outlay)	2,618,328	1,669,132	(949,196)
Renewal and replacement	1,193,820	963,969	(229,851)
Retirement of indebtedness	1,142,640	1,458,409	315,769
	<u>4,954,788</u>	<u>4,091,510</u>	<u>(863,278)</u>
Total expenditures			
Transfers (to) or From			
Nonmandatory transfers	(1,856,530)	(2,189,259)	(332,729)
Ending Balances			
Capital Outlay	-	(528,107)	(528,107)
Renewals and replacements	(102,066)	221,099	323,165
Retirement of indebtedness	1,233,064	1,096,772	(136,292)
	<u>1,130,998</u>	<u>789,764</u>	<u>(341,234)</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF CASH AND CASH EQUIVALENTS
 For the Year Ended June 30, 2002

Schedule 6

Name of Bank	Account Type	Account Number	Balance per Bank Statement	Reconciled Balance Per Books
Bank of Las Vegas				
Account payable account	Checking	79-6140-5	\$ 802,121	\$ 81,877
Payroll account	Checking	79-6010-7	87,921	20,677
University wire-transfer account	Checking	79-6154-5	454,917	454,917
Cash receipts account	Checking	79-6007-7	433,509	445,006
Cashier's credit card account	Checking	79-6115-4	32,264	34,296
Direct Lending account	Checking	79-6153-7	1,011	1,011
Wells Fargo Bank - Albuquerque				
Endowment pool account	Money Market	75050000	21,224	21,224
Special investment	Money Market	75050001	-	-
Business account	Checking	601-533-8863	141,392	141,392
Petty cash	<i>Cash on hand</i>		-	10,908
Total cash and cash equivalents			<u>\$ 1,974,359</u>	<u>\$ 1,211,308</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF PLEDGED COLLATERAL
 For the Year Ended June 30, 2002

Schedule 7

	Bank of Las Vegas	Wells Fargo
Checking accounts	\$ 1,811,743	141,392
Money market accounts	-	21,224
	<hr/>	<hr/>
Total deposits	1,811,743	162,616
Less: FDIC/SIPC coverage	100,000	500,000
	<hr/>	<hr/>
Total uninsured public funds	1,711,743	-
	<hr/>	<hr/>
50 percent collateral requirement	855,872	-
	<hr/>	<hr/>
Pledged Federal Securities	CUSIP #	Matures
6 1/4 Bond (Held in LV, NM)	31337H7B7	12/02/2002
FNMA (Held in LV, NM)	31359MLU5	01/02/2007
	<hr/>	<hr/>
Total Collateral	950,000	-
	<hr/>	<hr/>
Over (under) collateralized	\$ 94,129	-
	<hr/> <hr/>	<hr/> <hr/>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2002

	Federal CFDA #	Expenditures
Research and Development Cluster		
NASA -ANO Ronald Clark	43.001	\$ 92,210
NASA -ANO Visiting Researchers	43.001	89,291
NASA -ANO Subawards	43.001	284,405
NASA -Kennedy	43.001	159
NASA -JSC Astrobiology	43.001	103,976
CCD Photometry of Vesta	43.001	88,517
NASA /Development of Polymers	43.001	98,488
NASA/Hydrocode Simulations	43.001	7,239
NASA/Study of Forest Fires	43.001	35,612
NASA/Hydrazine Air Filt. 1/02-/05	43.001	24,546
NSF-SGER/Cerro Grande	47.074	13,670
NSF CREST	47.076	89,207
DOE/Steam Quality 10/97-9/00	81.004	17,000
NIH/Fetoprotectants 9/99-8/00	93.273	8,794
MBRS-Electronic Journal 8/99-7/00	93.375	145,514
MBRS-Shaw 8/99-7/00	93.375	322
MBRS-Home Carryover 2000	93.375	4,364
NIH Score Admin.	93.375	19,379
NIH Score -Horne	93.375	15,664
NIH Score -Sammeth	93.375	89,738
NIH Score -Shaw	93.375	23,275
NIH Score -Shaw	93.375	18,775
NIH Score Admin. 9/01-8/02	93.375	68,287
NIH Score Sammeth 9/01-8/02	93.375	124,851
NIH Score Shaw 9/01-8/02	93.375	83,730
NIH Score Fox 9/01-8/02	93.375	87,236
NIH Score Horne 9/01-8/02	93.375	153,196
NIH/Bridges 4/00- 3/2003	93.375	147,461
PhD/Bridges Program	93.906	17,058
Total Research and Development Cluster		<u>1,951,962</u>
Student Financial Aid Cluster		
Federal SEOG 1999-2000	84.007	\$ 186,883
FED W/S Instruction	84.033	114,361
FED W/S Academic Support	84.033	57,311
FED W/S Student Services	84.033	74,329
FED W/S Institutional Support	84.033	23,716
FED W/S Operation & Maint.	84.033	4,097
FED W/S Social & Cultural	84.033	12,083
FED W/S Public Service	84.033	22,806
FED W/S Internal Service	84.033	2,542
FED W/S Auxiliaries	84.033	34,436
Financial Aid -Admin Allow	84.033	73,344
FED W/S America Read/Counts	84.033	3,206
FED W/S Off Campus W/S 2000-01	84.033	1,413
Fed Off Campus W/S 2001-2002	84.033	47,895
Federal PELL 1999-2000	84.063	2,980,388
Total Student Financial Aid Cluster		<u>3,638,810</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2002

	Federal CFDA #	Expenditures
TRIO Programs Cluster		
Support Services 2000-2001	84.042A	55,048
Support Services 01-02	84.042A	378,007
Upward Bound 6/99-5/00	84.047A	704
Upward Bound 6/00-5/01	84.047A	8,307
Upward Bound 6/01-5/02	84.047A	501,354
Total TRIO Programs Cluster		944,420
U.S. Department of Labor		
GOAL Program 10/99-4/02	17.253	1,165,747
U.S. Bureau of Land Management		
Forest Management Prog. 9/1-8/02	10.652	24,327
National Aeronautics and Space Administration		
AISTEC-Technology Ctr	43.001	21,893
AISTEC-Admin 12/99-11/00	43.001	122,553
AISTEC-Technology Ctr 7/01-7/02	43.001	101,904
NASA/Educational Outreach FY02	43.001	6,117
NASA/Reaching Out for Science FY02	43.001	55
Total National Aeronautics and Space Administration		252,521
National Science Foundation		
UCAN-RSI Part. Support 99-00	47.071	920
Increasing Minority Grade/CS	47.076	27,299
Total National Science Foundation		28,219
U.S. Department of Education		
US Dept of ED/SWCC 10/00-9/01	84.283	\$ 518,675
US Dept of ED/SWCC 10/00-9/01	84.283	211,301
US Dept. of Ed/SWCC-Admin.	84.283A	113,470
US Dept. of Ed/SWCC-Part 10/01-9/02	84.283A	468,031
NMHU Dist. Ed Project 10/01-09/02	84.031S	301,724
Dept. of Ed. - Rehab. Counseling	84.129B	106,932
Training for all Teachers	84.195B	35,566
Training for all Teachers 01-02	84.195B	149,619
Dept. of Ed. - Career Ladder	84.195E	251,586
San Miguel GEAR -UP	84.334A	1,046,352
Bilingual Ed. Career Ladder/Espanol	84.195.E	122,317
CAMP-College Assist. Migrant Prog	84.149A	128,730
Total U.S. Department of Education		3,454,303

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2002

	Federal CFDA #	Expenditures
U.S. Department of Health and Human Services - Passed through NM Department of Children Youth and Families		
CYFD FY 1999-2000	93.658	749
CYFD FY 2000-2001	93.658	10,363
CYFD FY 2001-2002	93.658	1,745,830
Total U.S. Department of Human Services		<u>1,756,942</u>
U.S. Department of the Interior		
DOI Water Resource Inst	15.805	146,214
DOI-MESA 10-01-01 to 09-30-02	15.805	39,319
DOI/NPS Litte Chicken Mine 12/00	15.904	1,914
DOI Conservation Landscape	15.608	1,354
Total U.S. Department of the Interior		<u>188,801</u>
Total federal awards expended		<u>\$ 13,406,052</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Accounting

The above schedule of expenditures of federal awards was prepared on the accrual basis of accounting.

Note 2. Other Disclosures

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

Note 3. Student Financial Assistance

The Institute administers the Perkeing Loan Program. Total outstanding loans under this U.S. Department of Education program at June 30, 2002 were \$1,438,964. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2002, were \$311,576.

During the fiscal year ended June 30, 2002, the Institute processed \$231,100 of new loans under the Guaranteed Student Loan Program, which includes Stafford Loans, Parents' Loans for Undergraduate Students, and Supplemental Loans for Students.

Note 4. Subrecipients

The University disbursed federal funds to the following subrecipients:

Alabama A&M	43.001	\$ 86,863
Midcontinental Regional Education	84.283	322,384
Southern Ute Indian Tribe	47.071	312
Rio Arriba County Works	47.071	167,580
Jemez Valley Schools	47.071	2,000
New Mexico State University	43.001	16,206
Northwest Indian College	43.001	9,017
Ogden School District	84.195	79,103
University of Puerto Rico	43.001	99,230
West Ed.	84.283	313,821

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2002

Program Title	Account Number	Expenditures
NMHOH/DDSEP FY 1998-99	22132	\$ 112,969
Technical Assistance 01-02	22133	106,278
DEPT ED-JOB EXCHANGE 1/2-3/03	22134	389
Biennail Eval. Reports 5/99-9/99	22167	26,087
Special Ed. Quarterly Meetings	22171	265
Biennail Eval. Reports 2/00-9/00	22181	2,579
NMHU Dist. Ed. Project 7/00-10/00	22182	86,595
AP-NM Incentive Program 7/00-06/01	22186	35,385
NM Ed. Dept./Summer Immersion	22188	2,347
Biennial Eval. Reports 5/01-01/02	22189	129,924
ECELL 2001-2002	22190	169,059
NMSDE-Advanced Program 7/01-6/02	22191	934,008
Spanish Summer Immersion 3/02-6/02	22192	3,672
Child Care Nutrition 99-00	22253	1,765
Upward Bound Nutrition 01	22254	22,999
Rio Rancho Works 2/00-5/00	22313	93,950
WORK Program 6/01-6/02	22314	1,422,339
Day Care Nutrition 98-99	22353	16
NYSP Nutrition 01	22355	319
State Work Study -Instruction	22411	54,396
State Work Study -Academic Support	22412	19,009
State Work Study -Student Services	22413	58,086
State Work Study -Inst. Support	22414	7,948
State Work Study -Public Service	22416	11,608
State Work Study -Internal Service	22417	9,988
State Work Study -Auxiliaries	22418	10,495
State Work Study -Oper. & Maint.	22420	4,219
SSIG 2001-2002	22445	321,873
CHE Graduate Fellowship Prog.	22472	44,702
CHE -New Mexico Scholars	22475	56,286
CHE/GEARUP End 7/01	22478	10,500
Alternate Assessment 4/99-9/99	22714	2
DOH/Community Mental Health	22717	13,568
Alternate Assessment 6/30/00	22719	12,114
NMDOH/Public Health 2001-2002	22722	14,500
NM Lottery Scholarships	22733	359,210
Child Care Mini -Grant fy98	22754	-
Law Enforcement 98-99	22760	12,606
NMSHTD Weed Management	22762	4,316
ENLACE 4/00-12/00	22770	269
NMHU Archives	22771	405
New Mexico Enlace 10/01-06/02	22772	35,211
NMSU/CETP 8/97-6/01	23113	60,200
NMSU/AMP 1/99- 12/99	23117	58,463
NMSU/AMP 11/00 -06/01	23121	1,346
NNMCC/CETP Scholarships 2000-01	23122	4,750
NMSU/CETP 01-02	23123	34,880
NMSU-BRIN 9/30/01-8/31/02	23125	92,833

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2002

Program Title	Account Number	Expenditures
UNM/NASA- ACE 7/98-6/99	23143	6,160
UNM/NASA Pursue	23147	42,703
University of Washington	23151	149,763
UNM/Geriatric education 9/99-8/00	23152	14,475
New Mexico Lend	23154	60
NM Coalition Ag. Sci. Ed.	23155	4,681
UNM/NASA -- ACE Group 2	23156	87,151
UNM Geriatric 01-02	23157	2,094
PhD/Bridges Program 01-02	23158	25,111
EPSCOR-Nanoscience	23160	547
EPSCOR-Natural Resource	23161	6,916
WASEO Fall 2000	23170	148
WASEO Spring 2001	23171	218
WASEO Summer 2001	23172	999
WASEO Fall 2001	23173	1,416
WASEO Spring 2002	23174	1,187
Southern U./Region IV 9/96-8/99	23181	641
HBCU/MI Outreach yr 5 4/95-9/99	23182	81,597
		<u>4,890,595</u>
		<u>\$ 4,890,595</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF PRIVATE AWARDS
 For the Year Ended June 30, 2002

Program Title	Account Number	Expenditures
CETP-Scholarships 98-00	23116	\$ 17,500
Cal. Tech./JPL 8/15/00- 8/15/01	23188	48,974
Spelman 10/99-9/99	23186	68
Spelman 10/00-9/01	23189	50,557
Magdalena Ridge Observatory	23190	12,536
UNH/Mercury Monitoring	23191	8,398
MAPP@NMHU	23192	125,282
Dine College 05-01 to 12-01	23193	40,250
ASSESS.Grant/ENMU	23196	3,869
Microsoft Undergrad. 01-02-12-02	23197	4,501
AP Institute/Other Sources	23312	53,560
Zia Pueblo Project	23317	7,965
LANL/MRO 05/01-	23336	62,678
Prueba de Espanol	23515	59,877
NM Endowment For the Humanities	23521	1,754
City of LV/Social Work /Mou	23523	9,900
SCIMAST/UCAN -RSI	23524	291
RETA/Regional Networks	23526	60,542
Sangre de Cristo Community & Scho	23529	62,864
HACU-Microsoft Technology 1/00-12/00	23532	26,796
Navajo Nation Headstart	23535	26,426
Foundation/Coronado Expedition	23536	77,674
Pueblo of Jemez/LAPP	23538	14,027
NYSP Summer 2001	23540	12,395
Viles Scholarship	23542	46,500
Tribal Scholarships	23543	385,475
Misc. Scholarship	23544	113,200
Wal-Mart/Gear-up/Student Projects	23545	85
American Indian Education Consor.	23546	160,125
International Tech. Assoc.	23547	1,122
NYSP - Misc.	23548	1,409
Bell Charitable Found. FY 02	23549	13,520
Alb. Public Schools/MOU-FY02	23550	6,000
Univ. of Puerto Rico FY02	23551	29,692
NYSP Summer 2002	23552	36,280
		<u>\$ 1,582,090</u>

NEFF + RICCI LLP

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

**Independent Auditors' Report on Compliance and on
Internal Control Over Financial Reporting Based on an Audit
of Financial Statements Performed in Accordance
With *Government Auditing Standards***

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

We have audited the financial statements of the New Mexico Highlands University (the University), as of and for the year ended June 30, 2002, and have issued our report thereon dated October 30, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-7 and 01-10.

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 assurance on the internal control over financial reporting.

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

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 99-1, 99-2, 01-2, 01-4, 01-7 through 01-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, of the reportable conditions described above, we consider 01-4 to be a material weakness.

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

Neff + Ricci LLP

Albuquerque, New Mexico
October 30, 2002

NEFF + RICCI LLP

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

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

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

Compliance

We have audited the compliance of the New Mexico Highlands University (University) with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments and 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 on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-19, 02-02, and 02-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

Neff + Ricci LLP

Albuquerque, New Mexico

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 For the Year Ended June 30, 2002

99-1	Endowment Investment Policy	Modified and Updated
99-2	Student Accounts Receivable	Modified and Updated
01-1	Fixed Assets	Resolved
01-2	Cash Balances and Reconciliations	Substantially Completed and Updated
01-3	Accounts Payable	Resolved
01-4	Restricted Fund Receivables and Deferrals	Repeated and Updated
01-5	Payroll Controls and Procedures	Resolved
01-6	Inter Fund Transactions	Updated and Combined with 01-4
01-7	Budget Overspending	Repeated and Updated
01-8	Software Implementation	Repeated and Updated
01-9	Computer Policies and Procedures	Repeated and Updated
01-10	Fund Deficit	Repeated and Updated
01-11	Accounts Payable Reconciliation	Resolved
01-12	Accounts Payable Transactions	Resolved
01-13	Contingency Operations	Resolved
01-14	Segregation of Duties-Accounts Payable and Purchasing	Resolved
01-15	Trial Balances	Resolved
01-16	Interfund Transactions	Updated and Combined with 01-4
01-17	Payroll Controls and Procedures	Resolved
01-18	Federal Financial Reporting	Resolved
01-19	Federal Cash Management	Repeated
01-20	Indirect Costs	Resolved
01-21	Accrued Annual Leave	Resolved
01-22	Computer Security	Resolved
01-23	Information Technology Plan	Repeated and Updated
01-24	Audit Due Date	Resolved
01-25	Electronic Security Access	Resolved
01-26	Employee Access Rights	Resolved
01-27	Independent Public Accounting Contracting	Resolved
01-28	Cell Phone Charges	Resolved
01-29	Trial Balances	Resolved
01-30	Debt Payments	Resolved

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of New Mexico Highlands University.
2. There were eight reportable conditions disclosed during the audit of the financial statements.
3. There were two instances of noncompliance material to the financial statements of New Mexico Highlands University disclosed during the audit.
4. There were three reportable conditions that were disclosed during the audit of major federal awards programs.
5. The auditors' report on compliance for the major federal awards programs for New Mexico Highlands University expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for New Mexico Highlands University are reported in Part C of this schedule.
7. The programs tested as major programs included:

	CFDA #
• Research and Development Cluster	Various
• Student Financial Aid Cluster	Various
• TRIO Program Cluster	Various
• GOAL	17.253
• SWCC	84.283
• GEAR UP	84.334
8. The threshold for distinguishing Type A and Type B programs was \$402,182.
9. New Mexico Highlands University was determined to be a high risk auditee.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

99-1 Endowment Investment Policy

Condition

The University has two corporate bonds that exceed the University's fixed income value requirement. The investment in Bank Boston comprises 12.5% of the fixed-income portfolio. The investment in Donaldson, Lufkin, & Jenrette comprises 12.9% of the fixed-income portfolio.

The University has an investment in stock that exceeds the University's equity value requirement. The investment in Ishares comprises 7% of the equity portfolio.

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

Criteria

The University's endowment investment policy states, "Individual issues of non-government debt are limited to a maximum of 10% of the total fixed-income value without written approval of the University". The policy further states, "No purchase of stock should result in a position which exceeds 5% of the total equity value without written approval of the University."

Cause

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

Effect

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

Recommendation

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

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

99-1 Endowment Investment Policy (Continued)

Response

The University concurs with the finding and agrees the current investment policy should be modified to compensate for current market conditions and fluctuations.

99-2 Student Accounts Receivable

Condition

During our test work of student accounts receivable, we noted that the University estimated the allowance for doubtful accounts based upon numbers of years that the account has been outstanding. Though, this is a step in the right direction, the University has not developed a method to determine the true collectibility of its accounts.

Criteria

The determination of an allowance for collectible accounts should be based upon actual collection rates of the University.

Cause

The University's older accounts receivable are being collected by New Mexico Educational Assistance Foundation (NMEAF) and information from NMEAF has been sparse and the University has not developed a method in which to track collections on current and past due accounts.

Effect

The allowance for doubtful account may not be properly stated.

Recommendation

The University should analyze historical collection rates to reasonably determine an allowance based upon the aging of the receivables. Receivables tend to become increasingly uncollectible as they age. Accordingly, an estimated allowance is necessary for all receivables based upon historical collection rates and current conditions.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

99-2 Student Accounts Receivable (Continued)

Response

The University is running a Student Aging Analysis Report on a monthly basis to track accounts. This report has been used very effectively as a tool to help in day-to-day collection of students accounts. The University continues to collect historical data in an effort to determine a reasonable allowance of uncollectible accounts. In addition, NMEAF has turned all accounts over to another collection agency effective August 2002. This agency appears to be aggressively pursuing the University's uncollectible accounts.

01-2 Cash Balances and Bank Reconciliations

Condition

During our testwork on cash, we noted the following:

- Over \$20,000 in stale dated checks were still in the bank reconciliation outstanding check lists at year end.

Criteria

After checks become stale (outstanding for over a year) they should be removed from the outstanding check list and the check information along with funds in the amount of the stale checks should be submitted to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department.

Cause

Checks over one year old were not adjusted out of the reconciliations or investigated to determine reason that checks had not cleared.

Effect

Stale dated checks remained in the University's records.

Recommendation

The University should review stale dated checks and make adjustments accordingly.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-2 Cash Balances and Bank Reconciliations (Continued)

Response

The University concurs with the finding and is in the process of reviewing the outstanding checks listing. The analysis will include research to determine the reason the checks have not cleared. This analysis will be completed by January 2003, and outstanding checks over one year old will be submitted to the Unclaimed Property Division of NM Taxation and Revenue Department.

01-4 Restricted Fund Receivables and Deferrals-Material Weakness

Condition

The University had over \$1,200,000 recorded in the general ledger as deferred revenue, but did not have sufficient cash funds available as of June 30, 2002 and 2001. The restricted cash balances that correspond to the restricted deferred revenue may have been used for a purpose other than what the funds were originally restricted for and we could not identify whether the deferred revenue was spent on Federal grants (See Finding 01-19), State grants or unrestricted expenditures. Note that, for financial statement purposes, the deferred revenues have been included in fund balance.

The University had placed certain inactive or unknown balances of receivables and deferred revenue as of June 30, 1999 into a suspense account. The University conducted research in FY 2002 of a schedule of such balances that is close to the general ledger. The University determined that \$1,757,922 of receivables and \$640,811 of deferred revenue consist of old and inactive balances. Associated with this matter is that cash and due to/from accounts of all funds at July 1, 1999, were consolidated and subsequent activity does not permit complete recognition of interfund balances.

During our testwork on restricted receivables it was noted that approximately \$1,800,000 of nearly \$3,400,000 at June 30, 2002 had not been collected as of October 2002. We were not able to determine whether those uncollected receivables are valid and collectible.

Criteria

Restricted deferred revenue balances relate to a specific restricted grant or contract. The funds received in advance for the specific restricted grant or contracts that are unspent cannot be loaned out for purposes outside of the grantor or donor's restriction.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-4 Restricted Fund Receivables and Deferrals-Material Weakness (Continued)

Criteria

An update system integrated with and reconciled to the general ledger should be used to keep real time track of restricted receivables and deferrals. This would allow advances to be spent within a short time and receivables to be billed and collected as soon as possible.

Cause

The University was in a cash deficit in the prior year causing the University to spend all funds in pooled cash, including the restricted cash.

The University incurred turnover in the grants and contracts area and new personnel were not adequately trained.

Effect

The University may have to pay back funds previously received for specific purposes from grantors that were to be spent in 2001, for general costs.

Recommendation

The University should develop a plan to replenish the funds back to the restricted grants and contracts and insure that reimbursements of unrestricted funds takes place as soon as it is allowed under the grant or contract. The University must also contact the grantors to determine the accuracy of balances.

Response

The University concurs with the finding and by March 31, 2003, will complete an analysis and reconciliation of deferred revenue balances and interfund transactions in the grant accounts. The analysis /reconciliation will determine if there is cash on hand relating to the deferred revenue or if there are interfund transactions that need to be recognized. A determination will also be made as to what required action will take place with the funds, i.e. remit them back to the grantor, spent on the program, or transfer the funds to the current unrestricted fund.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-7 Budget Overspending

Condition

We noted that the University overspent its approved budget in the Unrestricted Public Service by a total of \$6,422, Restricted Instruction and General, and Student Aid by a total of \$2,941,279 and 1,046,162 respectively. Additionally, the Retirement of Indebtedness Plant Fund was also over budget by \$315,769. We also noted that the budgeted numbers entered into the University's general ledger software did not coincide with the budgeted numbers reported to the Commission on Higher Education. The University's software is designed to provide budget control by not allowing a purchase request to be approved unless there is available budget for that line item. The University had this software control over budget turned off. (See finding 01-8)

Criteria

Adequate internal controls to prevent budget overspending should insure 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 policies and procedures were not adequate due to difficulties with the implementation of the new general ledger software that also caused the University to turn off the software's built in budget controls.

Effect

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

Recommendation

University budget controls and processes should be strengthened to insure that budgeted amounts are never overspent by any amount. As part of the strengthening process, the University should fully implement the payroll position control module, the budget module, and turn on the software's budget overspending controls.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-7 Budget Overspending and Reporting-Material Weakness (Continued)

Response

The University concurs with the finding and will be implementing Banner software in January 2003 to control budget overspending.

01-8 Software Implementation

Condition

Important financial related modules (Banner System) either have not been implemented or have not been fully implemented. FY2002 budget information has been loaded into the system, but the budget functionality is not used to track budget status. Instead of using the Banner budget capability, a variety of non-Banner, offline methods are used. In addition to budget functionality, other financial modules that are not implemented include grants and contracts and cost accounting. Other financial modules that are not fully implemented include general ledger, research accounting, and purchasing and procurement.

Criteria

Optimal performance from the Banner System occurs when all financial functions are integrated.

Cause

It appears that top level management has not effectively mandated the use of the Banner system. Accounting inexperience may also be a factor contributing to systemic problems.

Effect

At best, personnel and resource inefficiencies by not using the Banner system capabilities are occurring; and at worst, budget accounting transactions are not accurately tracked. Budgets could be and were overspent and financial accounts may contain inaccurate information.

Recommendation

Fully implement the Banner System and ensure that the system is functioning properly.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-8 Software Implementation (Continued)

Response

The University concurs with the recommendations and in September, the President designated a Banner Coordinator to provide leadership and coordination to achieve full implementation. The finance area has reviewed sub-modules and has outlined a schedule to complete implementation and integration of missing sub-modules no later than July of 2003. Specifically, Position Control was turned on at the beginning of the 2002-3 fiscal year. Budgets have been entered and Budget Development should be done through Banner by January 1, 2003. Training will occur in the next few months so that the Research Accounting module will be fully functioning by July 1, 2003. The interface between Financial Aid and Payroll for student employees will be implemented for the spring semester.

01-9 Computer Policies and Procedures

Condition

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

Criteria

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

Cause

The University has not adopted computer related policies and procedures.

Effect

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

Recommendation

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

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-9 Computer Policies and Procedures (Continued)

Response

The University concurs with the recommendation and has tasked the IT over-site committee to produce policies and procedures for the Board of Regents' consideration and adoption in March 2003. The policies and procedures will be reviewed and adopted by both the faculty and student governments.

01-10 Fund Deficit

Condition

After the University removes the fund balances designated for inventories, prepaids, and deposits from the Current Funds Unrestricted Fund Balance there is an unreserved/undesignated fund deficit of \$2,087,049. The University also had fund deficits in the unexpended of \$528,107.

The University will have to use current year revenues and appropriations to recover the prior year's fund deficit.

Criteria

With adequate internal controls mainly concerning budgeting and cash management, the Current Funds Unrestricted unreserved/undesignated fund balance should not be in a deficit.

Appropriations made to the University are intended by the legislature to cover current year operations, not to recover prior years deficit.

Cause

The University incurred both a cash deficit and budget overspending for the year ended June 30, 2001 that created a fund deficit.

Effect

Funds spent on future operations may have to be curtailed in order to recover the fund deficit as of June 30, 2001.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-10 Fund Deficit (Continued)

Recommendation

The University will have to develop and execute its plan to make the fund deficit a fund balance as soon as possible and insure that future budgeting and cash management is done properly so that another fund deficit will not be created.

Response

The University is in the process of developing a plan to reduce a portion of the 1.4 million dollar deficit as of June 30, 2002. However, once the University completes it's analysis of uncollectible grants receivable, grant deferred revenue, and other miscellaneous accounts receivable the fund deficit reduction may be negated by the impact of the additional write-offs of the above mentioned grants receivable, deferred revenue, and miscellaneous receivables. The additional write-off/fund deficit will be determined by March 31, 2003.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 For the Year Ended June 30, 2002

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

Questioned
 Costs

01-19 Federal Cash Management

N/A

CFDA Number(s) – All
 Program Name(s) – All
 Compliance Requirement – C. Cash Management

Condition

The University had \$1,129,791 in deferred federal revenue, representing cash receipts prior to June 30, 2001, but the University also had an overall negative cash position at June 30, 2001. We could not determine whether restricted funds were spent in other Federal programs or funds outside of their intended restricted purpose.

Criteria

All federal cash advances that have not been spent and are recorded as deferred federal revenue should be traced to the specific federal grant or contract that was the source of the funds. According to federal regulations, cash advances received for specific restricted purposes can only be spent on that specific restricted purpose.

Cause

Deferred federal revenue balances from prior years were not brought forward into current year programs or the funds were not remitted back to the grantor or the deferred revenue balance is incorrect. Overall poor cash management controls caused the University to spend restricted cash on purposes outside of their original intended purpose.

Effect

Federal cash management regulations are not being complied with.

Recommendation

All old deferred federal revenue balances should be investigated to determine if there is still cash on hand relating to the deferral and if so, what should be done with the funds. They should be remitted back to the grantor, spent on the program, or transferred to the unrestricted fund. Controls should be placed into operation to insure that restricted cash is only spent for its restricted purpose.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

01-19 Federal Cash Management (Continued)

Response

The University concurs with the finding and is in the process of developing controls that will prevent federal funds from being used for other purposes other than the intended purpose. This process will be operational by March 31, 2003.

02-2 Trio Program-Unallowable Cost

CFDA Number(s) – Various

Program Name(s) –TRIO Cluster

Compliance Requirement – B. Allowable costs/Cost principles

Condition

During our testing of disbursements for the Trio program, we noted one out of 40 disbursement tested that is considered to be an unallowable cost. The disbursement was coded to the Trio program when it should have been coded to the C.E.S.D.P program.

Criteria

It is standard accounting policy that costs incurred by a program should be charged to the program.

Cause

There was an account coding error, which resulted in unallowable cost coded to the program.

Effect

The Trio program had an unallowable cost charge.

Recommendation

Staff should review cost codes prior to processing and recording transactions to ensure that all costs are charged to the appropriate programs.

Response

The disbursement coded in error has been corrected and charged to the correct program.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

02-3 TRIO – Upward Bound Program
CFDA Number(s) – Various
Program Name(s) –TRIO Cluster
Compliance Requirement –E. Eligibility

Condition

In performing eligibility testwork for the Upward Bound program, it was noted that three of the sample of ten stipend recipients tested had received stipends for which no supporting attendance records were found.

Criteria

Per the TRIO Cluster Compliance Supplement, “To be eligible for a stipend, participants must show evidence of satisfactory participation in project activities, including regular attendance and performance in accordance with standards.”

Cause

Either staff did not ensure that every student who attended a session signed their name on the Attendance List, or some students were erroneously paid stipends for sessions they did not attend.

Effect

These findings indicate that the Upward Bound program was not compliant with grant eligibility requirements.

Recommendation

The program staff need to carefully check that each and every student attending a program session has signed their name on the Attendance List for that session. The list of students to receive stipends should be checked against attendance records to ensure that all those receiving checks have fulfilled program requirements.

Response

The University concurs with the finding and will implement procedures to ensure that attendance lists are reviewed before stipends are requested. Upward Bound participants will sign for stipends that are distributed.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

D. OTHER FINDINGS

01-23 Information Technology Plan

Condition

During our consideration of IT related controls, we noted that the University does not currently have an IT steering committee (or equivalent).

Criteria

Before the University commits to expenditures, major purchases of, or changes to, IT equipment or software should be submitted for proper consideration by a group of users with a variety of skills and needs. This group should meet on a regular basis to discuss any IT related issues which may arise

Cause

The University has not seen the need to create an IT steering committee.

Effect

Without a steering committee, there is the risk that changes may take place which may not be acceptable to all users.

Recommendation

We recommend that the University set up an IT steering committee composed of management and employees from the following departments: operations, personnel, administration, and information technology. This group should meet on a regular basis (e.g., monthly) to consider any issues which may have arisen. The group should also be involved in any major decision-making surroundings of purchases of, or changes to, IT systems. Members of the group should be selected based on their knowledge of technical issues and/or their commitment to furthering the University's investment in IT.

Response

The University concurs with the recommendations and in October 31, 2002, had the first of monthly Information Technology Over-site committee meetings and thus created and appointed the sub committee consisting of the following:

- Budget and Finance
- Customer Service
- Policies and Procedure
- Hardware and Software (Technical)

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2002

D. OTHER FINDINGS (CONTINUED)

01-23 Information Technology Plan (Continued)

Response (Continued)

In addition, the overall IT over-site committee consists of a broad spectrum of faculty, staff, both technical and non-technical, student and faculty government, and researchers. The duties and responsibilities of the committee members is to help provide a unified Information Technology environment for New Mexico Highlands University that will enable the campus to systemically grow in the area of Information technology.

02-1 Accounts Receivable

Condition

The University has several account receivable accounts that management is unsure as to what is in the accounts and the aging of these accounts.

Criteria

Good accounting practices require that all accounts receivable accounts should be monitored and collected each month.

Cause

The detail was lost when the system was converted in 1999 and an alternative processes for monitoring these accounts has not been developed.

Recommendation

The University should review the activity of the accounts to determine collectibility and develop a process to monitor and collect the receivables on a monthly basis

Response

The University concurs with the finding and is in the process of reviewing miscellaneous accounts receivable to determine their collectibility.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2002

Exit conferences were held on November 13, 2002 with the following in attendance:

University

Elmer Salazar, Chairman, Board of Regents
Peter Bickely, Chairman, Budget and Finance Committee
John Loehr, Regent
Roger Gonzales, Regent
Dr. Sharon Caballero, President
Jack Sherman, VP of Finance/Comptroller
Clarence Sanchez, Interim VP of Academic and Student Affairs
Grace Montoya, Manager of Business and Finance
Ken Abeyta, Restricted Funds Manager
David Janson, Interim Assistant to the VP of Finance

Auditors

Scott Peck, CPA Neff + Ricci LLP
Wayne Brown, CPA Neff + Ricci LLP

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