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CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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

FINANCIAL STATEMENTS

JUNE 30, 2003

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

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STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

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STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

Official Roster

June 30, 2003

Board of Regents

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

Administrative Officials

Sharon Caballero	President
Jack Sherman	VP of Finance
Clarence Sanchez	VP of Academic and Student Affairs
Tino Pestalozzi	Controller



Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of New Mexico Highlands University (University) as of and for the year ended June 30, 2003, which comprise the University's basic financial statements as listed in the table of contents. We have also audited the unrestricted and restricted current funds budget comparisons presented as supplemental information as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the University are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the financial reporting entity of the business type activities information of the State of New Mexico that is attributable to the transactions of the University. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2003, and the changes in financial position and its cash flows, where applicable, for the year then ended in accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the University as of June 30, 2003, and the changes in financial position, cash flows, and the budgetary comparisons for the unrestricted and restricted funds' activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Additionally, as described in Note 1, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis-For State and Local Governments and Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities, as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003, on our consideration of the University's internal control over financial reporting and our test 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 Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Neff + Ricci LLP

Albuquerque, New Mexico
October 24, 2003

NEW MEXICO HIGHLANDS UNIVERSITY

Management's Discussion and Analysis For the Year Ended June 30, 2003

Introduction

The management of New Mexico Highlands University (University) herewith presents its financial statements and required supplementary information for the year ended June 30, 2003. This is the first year for which the University is required to conform with the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, which applies the standards to public colleges and universities. These statements “enhance the understandability and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors.” The University's financial statements for the **prior** fiscal year have not been restated to reflect GASB 34/35 standards and therefore, this discussion and analysis (MD&A) does not compare current fiscal year data with the prior year; however, next year's MD&A will include a comparative analysis.

A new requirement under GASB 34/35 is the presentation of all of the University's year-end assets, liabilities and net assets in one column, as is the presentation of its expenses, revenues and the resulting change in net assets, and its sources and uses of cash, in a one-column format. The purpose of these three reports is to show the University's financial position and annual activities in summary format, as if the University was a corporation, whereby all funds and cost centers are combined. However, applying the required **full accrual basis** of accounting, offsetting amounts owed by one fund to another and inter-fund transfers have been eliminated. Furthermore, full accrual accounting means that the fiscal year's revenues are recorded regardless of when the corresponding cash is received, and expenses are recorded regardless of when corresponding bills are paid.

The three new University-wide reports, the **Statement of Net Assets**; the **Statement of Revenues, Expenses and Changes in Net Assets**; and the **Statement of Cash Flows**, are followed by the notes to the financial statements, including a comparison of the final budget to the original budget, and of actual results to the final budget. The reader will not find fund financial statements as presented in prior years, since the new accounting standards applicable to public universities, as well as the current year's audit rule promulgated by the State Auditor, preclude the inclusion of fund financial statements.

NEW MEXICO HIGHLANDS UNIVERSITY

Management's Discussion and Analysis
For the Year Ended June 30, 2003

Discussion of Statement of Net Assets

Current assets consist primarily of cash and cash equivalents (\$4.4 million), and third party/capital receivables (\$5.4 million). The University has implemented procedures to collect these receivables in a timely manner.

Capital assets of \$40.9 million are shown net of \$51.7 million in accumulated depreciation and consist of land, buildings and improvements (\$21.6 million); construction-in-progress (\$11.1 million); and equipment, furniture and library books (\$8.2 million). Under the new GASB 34/35 standards, all capital assets, except land and construction-in-progress, are being depreciated, meaning that the University expenses a percentage of the assets' cost annually.

Total liabilities of \$15.0 million constitute 27% of total assets and consist primarily of accounts payable (\$4.0 million) and bonds/notes payable (\$8.5 million). Accounts payable represents operating money that the University is obligated to pay, but that has not yet been transformed into checks as of the close of the fiscal year.

Total net assets of \$41.2 million are derived by deducting total liabilities from total assets and show the composition of the University's equity. Restricted for nonexpendable (\$3.6 million) represents the University's endowment corpus, whereas restricted for expendable (\$2.3 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$2.9 million) are available to the University for any lawful purpose.

Net Assets as of June 30, 2003	
	(thousands)
Assets:	
Current assets	\$11,687
Endowment investments	3,594
Capital assets, net of accum. depr.	<u>40,913</u>
Total assets	<u>56,194</u>
Liabilities:	
Current liabilities	6,923
Non-current liabilities	<u>8,110</u>
Total liabilities	<u>15,033</u>
Net Assets:	
Invested in capital assets, net of debt	32,365
Restricted for nonexpendable	3,594
Restricted for expendable	2,308
Unrestricted	<u>2,894</u>
Total net assets	<u>\$41,161</u>

NEW MEXICO HIGHLANDS UNIVERSITY

Management's Discussion and Analysis
For the Year Ended June 30, 2003

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

This statement shows the components that increased, in the aggregate, the University's net assets by \$9.2 million during the year. According to the new accounting standards, operating expenses of \$49.2 million are subtracted from operating revenues of \$32.4 million, resulting in an operating loss of \$16.7 million. However, the latter is not very meaningful, since it excludes state general fund appropriations (\$21.6 million), which are required to be classified as non-operating revenue, because they are provided to the University without the state receiving commensurate goods and services for this revenue. Since state general fund appropriations are essential for the University to carry out its instructional and public service mission, the reader should focus on the \$4.9 million "**Income before other revenue, expenses, gains and losses**" achieved during the year. Added to this income is \$4.3 million in capital grants and gifts, in order to arrive at an increase in net assets of \$9.2 million. Capital grants and gifts comprise federal and state money designated for construction projects.

A new item introduced by the new standards under GASB 34/35 is **depreciation** (\$3.2 million), an annual expense in the form of a percentage of the historical cost of most capital assets, i.e. buildings/improvements, equipment, furniture, vehicles, and library books. In order to reflect in the financial statements the impact of accumulated depreciation, as if the University had recognized depreciation since its inception, a "catch-up" amount of \$48.7 million is deducted as an adjustment to the beginning net assets balance (bottom part of statement). Since depreciation is a non-cash expense, it is a reconciling item between the operating loss (Statement of Revenues, Expenses and Changes in Net Assets) and net cash used by operating activities (Statement of Cash Flows).

NEW MEXICO HIGHLANDS UNIVERSITY

Management's Discussion and Analysis
For the Year Ended June 30, 2003

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

NEW MEXICO HIGHLANDS UNIVERSITY

Management's Discussion and Analysis
For the Year Ended June 30, 2003

Discussion of Statement of Cash Flows

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University achieved a \$3.2 million net increase during the year, resulting in an ending balance of \$4.4 million. As a result of expenditure budget reductions, collection of receivables, timely drawing of grant funds and other prudent cash management measures, the University was able to gradually increase the average amount of cash in the bank throughout the year, thus reversing a trend that had caused cash shortfalls in prior years. The Statement of Cash Flows, in conjunction with the Statement of Net Assets, indicates that the University is well able to meet its obligations and finance its operations.

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

NEW MEXICO HIGHLANDS UNIVERSITY

Management's Discussion and Analysis
For the Year Ended June 30, 2003

Discussion of Significant Capital Projects

During the fiscal year ending June 30, 2003, the University continued construction of a \$18.2 million, state-of-the art science building, scheduled for opening in the Fall of 2004. The building is funded 66% by state general obligation bonds, 29% by the U.S. Department of Energy, and 5% by the U.S. Department of Housing and Urban Development. The bulk of the \$5.9 million increase in the Construction-in-Progress account is attributable to the science building. The second major construction project was the renovation of Slinger Hall (\$1.3 million), an instructional facility that houses primarily the School of Business. (Please refer to Note 4 – Property, Plant and Equipment, for details.)

Discussion of Budget Comparisons

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

On the **Restricted Current Funds** and **Restricted Instruction & General** schedules, significant variances between the original budget and final budget are due to the fact that the original budget, compiled by a previous, interim administration, was based on rough estimates. Generally, the amount of grant and contract awards, especially federal sources, for the following year is difficult to project accurately, because at the time of the original budget submission, it is often not known which grants and contracts will be funded. Significant variances between actual results and the final budget are primarily due to the fact that most federal grants have a budget period different from the University's fiscal year and that typically, the entire grant budgets are included in the final budget column, whereas actual results only reflect part of the grants' budget period. This explanation also applies to multi-year projects included under the "Capital outlay" line item on the **Combined Revenues and Expenditures** schedule.

On the **Unrestricted Current Funds** and **Unrestricted Instruction & General** schedules, the variances between actual results and the final budget of "Other sources" (\$0.62 million and \$0.36 million, respectively) are primarily due to the (unbudgeted) recovery of deferred revenue (\$0.16 million I&G), higher indirect cost and similar revenue than anticipated (\$0.20 million I&G), and \$0.2 million in bookstore revenue exceeding projections. Variances shown in the "Cash balance budgeted" line item were caused because the original budget projected an estimated balance, whereas the final budget and actual columns reflect the actual ending balance achieved in the prior year. The favorable variances of expenditures are due to administratively-initiated budget reductions and voluntary deferral or suspension of non-critical purchases.

NEW MEXICO HIGHLANDS UNIVERSITY

Management's Discussion and Analysis For the Year Ended June 30, 2003

Economic Outlook

For the fiscal year ending June 30, 2004 (FY04), the University received \$2.9 million in increased funding from the state general fund and anticipates increased funding for the following fiscal year (FY05), primarily due to an increase in student enrollment. The University's FY04 budget projects a healthy 5.1% ending balance for the Instruction & General fund and a 4.4% balance for total current funds (ending balance as a percentage of expenditures.)

Significant projects that the University is undertaking includes construction of a \$18.2 million state-of-the-art science and technology building, which is scheduled to be opened for classes in the Fall of 2004. Also, the Board of Regents is evaluating how to better serve its students and is planning on, amongst other things, strengthening the University's engineering and bilingual programs, and engaging in strategically relevant partnerships throughout Northern New Mexico and the entire state.

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

Contact Information

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
 STATEMENT OF NET ASSETS
 June 30, 2003

ASSETS

Current Assets

Cash and cash equivalents	\$ 4,424,525
Student accounts receivable, net of an allowance of \$998,686	764,362
Third party receivable	4,262,871
Capital receivable	1,183,273
Inventories	582,175
Prepaid assets	469,661
Total current assets	<u>11,686,867</u>

Noncurrent Assets

Endowment investments	3,594,146
Capital assets, net of accumulated depreciation	40,912,925
Total noncurrent assets	<u>44,507,071</u>

Total assets

\$ 56,193,938

LIABILITIES

Current Liabilities

Payables and accrued liabilities	\$ 3,988,204
Accrued compensated absences	65,185
Deferred revenue	1,918,087
Bonds payable-current portion	700,000
Notes and capital lease payable-current portion	251,580
Deposit held for others	-
Total current liabilities	<u>6,923,056</u>

Noncurrent Liabilities

Accrued compensated absences	513,386
Bonds payable long-term portion	5,930,000
Notes and capital lease payable-long term portion	1,666,076
Total noncurrent liabilities	<u>8,109,462</u>

Total liabilities

15,032,518

NET ASSETS

Invested in capital assets, net of debt	32,365,269
Restricted for	
Nonexpendable	
Restricted (Endowment Fund Balances)	3,594,146
Expendable	
Scholarships, research, instruction, and other	1,518,520
Loans	(307,009)
Capital projects	1,096,772
Debt service	2,893,722
Unrestricted	<u>41,161,420</u>
Total net assets	<u>41,161,420</u>

Total net assets and liabilities

\$ 56,193,938

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2003

Operating revenues		
Tuition and fees	\$	6,612,532
Tuition discounts and allowances		(2,583,387)
		<u>4,029,145</u>
Federal grants and contracts		15,077,521
State and local grants and contracts		6,081,477
Private grants and contracts		1,792,679
State land and permanent fund income		285,230
Sales and services of auxiliary enterprises		2,368,451
Other		2,801,000
Total operating revenues		<u><u>32,435,503</u></u>
Expenses		
Instruction and general		
Instruction		15,498,829
Academic support		2,187,066
Student services		2,844,915
Institutional support		4,677,762
Operations and maintenance support		3,465,056
		<u>28,673,628</u>
Student social/cultural development		356,288
Research		3,235,938
Public service		7,114,453
Student aid grants and stipends		5,341,727
Tuition discounts and allowances		(2,583,387)
Auxiliary enterprises		2,067,680
Athletics		1,456,863
Other expenditures		302,246
Depreciation		3,206,291
Total expenses		<u><u>49,171,727</u></u>
Operating loss		<u><u>(16,736,224)</u></u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN NET ASSETS (CONTINUED)
 Year Ended June 30, 2003

Non operating revenues (expenses)	
State appropriations	\$ 21,559,800
Interest and investment income	51,745
Net nonoperating revenues	<u>21,611,545</u>
Income before other revenues, expenses, gains and losses	<u>4,875,321</u>
Other	
Capital grants and gifts, net	<u>4,323,287</u>
Increase in net assets	<u>9,198,608</u>
Net assets	
Net assets - beginning of year	80,265,229
Inclusion of undivided interest of State Permanent Fund	2,015,465
Deferred revenue posted as fund balance and other	(1,591,509)
Cumulative effects of changes in accounting principle Adoption of depreciation for capital assets	<u>(48,726,373)</u>
Net assets, beginning of year, as adjusted	<u>31,962,812</u>
Net assets, end of year	<u>\$ 41,161,420</u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2003

Cash Flows From Operating Activities	
Tuition and fees	\$ 6,764,483
Grants and contracts	23,488,390
Sales and services of educational activities	2,368,451
Other operating receipts	2,705,386
Payments to employees for salaries and benefits	(20,909,892)
Payments to suppliers	(27,828,912)
Other sources (Regular Current Fund AR 2002-2003)	285,230
Net cash used by operating activities	<u>(13,126,864)</u>
Cash Flows From Noncapital Financing Activities	
State appropriations	21,559,800
Capital grants	4,323,287
Net cash provided by noncapital financing activities	<u>25,883,087</u>
Cash Flows From Investment Activities	
Purchases of investments	(200,000)
Sales of investments	278,809
Interest received on investments	52,518
Net cash provided by investment activities	<u>131,327</u>
Cash Flows From Capital and Related Financing Activities	
Cash paid for capital assets	(8,674,543)
Repayments of bonds payable	(665,000)
Repayments of notes and capital lease payable	(334,790)
Net cash used by capital and related financing activities	<u>(9,674,333)</u>
Net increase in cash and cash equivalents	3,213,217
Cash and cash equivalents, beginning of year	<u>1,211,308</u>
Cash and cash equivalents, end of year	<u>\$ 4,424,525</u>

See Notes to Financial Statements.

NEW MEXICO HIGHLANDS UNIVERSITY
 STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended June 30, 2003

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY
 OPERATING ACTIVITIES

Operating (loss)	\$ (16,736,224)
Adjustments to reconcile operating income (loss) to net cash used by operating activities	
Depreciation expense	3,206,291
Changes in assets and liabilities	
Receivables	925,151
Inventories	60,635
Other assets	(284,279)
Accounts payable and accrued expenses	(18,061)
Deferred revenue	(236,487)
Compensated absences	(43,890)
	<hr/>
Net cash used by operating activities	<u>\$ (13,126,864)</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

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, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Procedures for Approval of Operating Budgets

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

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

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

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

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

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

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

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

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

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 2002, are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2002. Deferred revenues also include amounts received from grant and contract sponsors that have not been earned.

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

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. For equipment, the University's capitalization policy includes all items with a unit cost of \$1,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University does not capitalize historical treasures or works of art.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20-25 years for infrastructure and land improvements, 10 years for library books, and 5 to 7 years for equipment.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Compensated Absences. The University accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. Accrued vacation up to 120 hours is recorded at 100% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA). Employees exempt from coverage by FLSA earn one hour of compensatory time for each overtime hour. The accrual direct and incremental salary related payments such as, the employees share of social security taxes.

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

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

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

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

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

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

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

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

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

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

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

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

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

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

NOTE 2. CASH AND CASH EQUIVALENTS

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

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

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

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

	Federally Insured	Insured and Collateralized	Uninsured and Un- Collateralized	Total Depository Balances
Demand deposits	\$ 300,000	1,596,851	3,440,968	5,337,819

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 \$1,582,205 (cost of \$(1,683,252)).

A summary of the University's investments at June 30, 2003, by category of credit risk described below, is as follows:

Investments	Category 1	Category 2	Cost	Market Value
United States Treasury				
Bills	\$ 362,739	-	306,468	362,739
Stocks and Bonds	-	1,219,466	1,240,100	1,219,466
	<u>\$ 895,420</u>	<u>686,785</u>	<u>1,683,252</u>	1,582,205
State Investment Council - Permanent Fund				<u>2,011,941</u>
Total investments				<u>\$ 3,594,146</u>

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

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003

NOTE 3. INVESTMENTS (CONTINUED)

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

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

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Following are the changes in capital assets for the years ended June 30, 2003:

	Balance June 30, 2002	Additions	Transfers	Retirements	Balance June 30, 2003
Capital assets not being depreciated					
Land	\$ 1,915,932	-	-	-	1,915,932
Construction in-progress	5,147,856	7,209,008	(1,275,000)	-	11,081,864
Total capital assets not being depreciated	\$ 7,063,788	7,209,008	(1,275,000)	-	12,997,796
Other capital assets					
Land improvements	\$ 2,860,653	-	-	-	2,860,653
Buildings	55,728,110	-	1,275,000	-	57,003,110
Furniture, fixtures and equipment	11,347,567	1,136,888	-	194,182	12,290,273
Library materials	6,604,438	378,236	-	163,073	6,819,601
Autos	566,491	119,000	-	-	685,491
Total other capital assets	77,107,259	1,634,124	1,275,000	357,255	79,659,128
Less accumulated depreciation for					
Land improvements	1,450,585	163,532	-	-	1,614,117
Buildings	36,604,817	1,927,800	-	-	38,532,617
Furniture, fixtures and equipment	4,871,882	786,712	-	188,665	5,469,929
Library materials	5,234,598	303,447	-	-	5,538,045
Autos	564,491	24,800	-	-	589,291
Total accumulated depreciation	48,726,373	3,206,291	-	188,665	51,743,999
Other capital assets, net	\$ 28,380,886	(1,572,167)	1,275,000	168,590	27,915,129

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003

NOTE 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Balance June 30, 2002	Additions	Transfers	Retirements	Balance June 30, 2003
Capital assets summary					
Capital assets not being depreciated	\$ 7,063,788	7,209,008	(1,275,000)	-	12,997,796
Other capital assets, at cost	77,107,259	1,634,124	1,275,000	357,255	79,659,128
Total cost of capital assets	<u>84,171,047</u>	<u>8,843,132</u>	<u>-</u>	<u>357,255</u>	<u>92,656,924</u>
Less accumulated depreciation	48,726,373	3,206,291	-	188,665	51,743,999
Capital assets, net	<u>\$ 35,444,674</u>	<u>5,636,841</u>	<u>-</u>	<u>168,590</u>	<u>40,912,925</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, is as follows:

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003
Bonds payable				
Long-term bond payable	\$ 6,630,000	-	700,000	5,930,000
Current portion of bonds payable	665,000	700,000	665,000	700,000
	<u>7,295,000</u>	<u>700,000</u>	<u>1,365,000</u>	<u>6,630,000</u>
Notes payable				
Long-term portion				
BLV loan #217623	356,155	-	26,922	329,233
BLV loan #2120000	1,469,941	-	133,098	1,336,843
Total long-term	<u>1,826,096</u>	<u>-</u>	<u>160,020</u>	<u>1,666,076</u>
Current portion				
BLV loan #217623	25,207	26,922	25,207	26,922
BLV loan #2120000	126,452	133,098	126,452	133,098
Total current	<u>151,659</u>	<u>160,020</u>	<u>151,659</u>	<u>160,020</u>
Total	<u>1,977,755</u>	<u>160,020</u>	<u>311,679</u>	<u>1,826,096</u>
Capital lease				
Long-term portion	91,560	-	91,560	-
Current portion	183,130	91,560	183,130	91,560
	<u>274,690</u>	<u>91,560</u>	<u>274,690</u>	<u>91,560</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003
Accrued compensated absences				
Long-term portion	622,461	21,295	65,185	513,386
Current portion	-	65,185	-	65,185
	<u>622,461</u>	<u>-</u>	<u>-</u>	<u>578,571</u>

NOTE 6. NOTES PAYABLE

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

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

Note payable with a bank, payable on November 18, 2007 with 59 monthly Payments of \$3,605 and one irregular last payment of \$231,699 at 4.75% per annum. The note is unsecured	\$ 356,155
Five year note with a bank, payable on July 30, 2007 with 59 monthly payments of \$16,403 and one irregular last payment of \$900,202 at 4.75% per annum. The note is secured with real estate	<u>1,469,941</u>
	<u>\$ 1,826,096</u>

The scheduled maturities of notes payable are as follows:

	Principal	Interest	Total
2004	\$ 160,020	80,076	240,096
2005	164,510	75,586	240,096
2006	172,495	67,601	240,096
2007	180,869	59,227	240,096
2008	<u>1,148,202</u>	<u>7,337</u>	<u>1,155,539</u>
	<u>\$1,826,096</u>	<u>289,827</u>	<u>2,115,923</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
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 June 30, 2003

NOTE 7. BONDS PAYABLE – REFUNDING AND CONSTRUCTION

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

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

Debt service amounts for future fiscal years is as follows:

	Principal	Interest	Ending June 30,
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
2009-2011	<u>2,775,000</u>	<u>260,990</u>	<u>3,035,990</u>
	<u>\$ 6,630,000</u>	<u>1,431,435</u>	<u>8,061,435</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003

NOTE 8. RISK MANAGEMENT

Self Insurance Plan - The University has a self insurance plan for employee medical coverage. They limit their risk of liability with a stop-loss policy, which continues coverage for any participant with claims from an individual occurrence in excess of \$30,000. The liability for claims incurred as of June 30, 2003 was \$144,263. The deficiency in amounts collected from the University and its covered employees for payment of health claims as of June 30, 2003 was \$(265,847). The following reconciles the activity in the liability during the year:

Liability for claims as of June 30, 2002	\$ (66,545)
Premiums collected by the University and covered participants	2,066,556
Claims paid during the year	(1,694,957)
Administrative fees paid during the year	<u>(426,638)</u>
Deficiency premiums collected as of June 30, 2003	(121,584)
Unpaid claims incurred as of June 30, 2003	<u>144,263</u>
Deficiency of premiums to pay current claims	<u>\$ (265,847)</u>

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

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

NOTE 9. EMPLOYEE BENEFITS

Plan Description. Substantially all of the New Mexico Highlands University full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (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.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 9. EMPLOYEE BENEFITS (CONTINUED)

Workers' Compensation Insurance. The University is insured for workers' compensation through the State of New Mexico General Services Department-Risk Management Division (RMD). RMD provides workers' compensation for all employees as required by state law. The University remits payments to RMD for this coverage based on premium statements received from RMD. Total expense for the year ended June 30, 2003, was \$128,356 which has been charged to expenditures.

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

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

A member is eligible to retire when:

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

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

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

NOTE 9. EMPLOYEE BENEFITS (CONTINUED)

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

Funding Policy. Plan members are required to contribute 7.6% of their gross salary. The University is required to contribute 8.65% of the gross covered salary. The contribution requirements of plan members and the University are established in Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The University's contributions to ERA for the years ending June 30, 2003, June 30, 2002, and 2001 were \$2,615,314, \$2,687,804, and \$2,846,945, respectively, equal to the amount of the required contribution for each year.

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

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

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

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NOTE 9. EMPLOYEE BENEFITS (CONTINUED)

Each participating employer makes contributions to the fund the amount of one percent of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution in an amount equal to one-half of one percent of the employee's annual salary. Each participating retiree pays a monthly premium.

The Retiree Health Care Authority issues a separate, publicly, available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report may be obtained by writing to the Retiree Health Care Authority, 810 W. San Mateo, Santa Fe, New Mexico 87501.

The University remitted \$243,342 and \$121,671 in employer contributions for years ended June 30, 2003.

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan. With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 5.65% to the carrier selected by the employee. The employee contributes 7.6% of his/her gross salary to the carrier they select. Contributions by the University totaled \$79,242 to the ERA for the alternative plan and \$152,033 to the various carriers for the year ended June 30, 2003. Employees contributed \$204,504 to the various carriers under the alternative plan during the year ended June 30, 2003.

NOTE 10. LEASES

At June 30, 2003, the University had various lease arrangements summarized as follows:

University as Lessee

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

Computer equipment and software	\$ 726,295
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STATE OF NEW MEXICO
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NOTE 10. LEASES (CONTINUED)

Operating Leases. Rent expense for operating leases amounted to \$850,709 for the year ended June 30, 2003.

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2003:

Year Ending June 30	Capital Lease	Operating Leases
2004	\$ 94,488	554,685
2005	-	404,823
2006	-	405,484
2007	-	371,683
2008	-	364,923
2009-2013	-	1,824,616
2014-2018	-	<u>577,795</u>
	94,488	<u>\$ 4,504,009</u>
Amount representing Interest	<u>2,928</u>	
	<u>\$ 91,560</u>	

NOTE 11. COMMITMENTS AND CONTINGENCIES

At June 30, 2003, 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>\$ 268,830</u>
Plant Funds	<u>\$ 7,757,969</u>

There were no significant construction contracts entered into by the University at June 30, 2003 that were not substantially done.

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June 30, 2003

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies. Reimbursements for amounts expended by the University under the terms of federal and state grants and contracts are subject to audit and possible adjustments by the granting agency. Grants and contracts for the years ended June 30, 2003 and 2002, are pending audits by federal and state agencies. It is the opinion of Institute management that adjustments, if any, will not have a material effect on the University's financial position or results of operations.

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

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

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

NOTE 12. 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.

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NOTE 13. SUBSEQUENT EVENT

During the year, the former president filed a \$175,000 lawsuit against the University. The Risk Management Division will not insure against the suit. The suit was settled for \$175,000 in July of 2003.

NOTE 14. RECONCILIATION OF BUDGET BASIS TO GAAP

Budget basis expenditures	\$ 58,206,627
Capital expenditures	(8,658,014)
Depreciation	3,206,291
Scholarship allowance	(2,583,387)
Bond payments	(665,000)
Notes and capital lease payments	<u>(334,790)</u>
Expenses per GAAP	<u>\$ 49,171,727</u>

NOTE 16. PENDING ADOPTION OF ACCOUNTING STANDARD

In May 2002, the Governmental Accounting Standards Board issued Statement No. 39. The statement establishes standards for identifying a component unit and for determining under what circumstances a component unit should be reported with its primary government. The requirements of the Statement apply to the University for its year ending June 30, 2004.

Based on management's assessment of the requirements of the Statement, management believes it is possible the University will include the University's Foundation in their financial statements and be required to provide certain additional disclosures about the Foundation when the Statement becomes effective.

NOTE 17. DEFICIT FUND BALANCE

The Net Assets for capital projects has an accumulated deficit fund balance through June 30, 2003 of \$307,009. The deficit was created from internally financed capital projects

NEW MEXICO HIGHLANDS UNIVERSITY
 COMBINED REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
State general fund appropriations	21,569,500	21,569,500	21,559,800	(9,700)
Federal revenue sources	23,721,719	14,274,283	14,761,414	487,131
Tuition and fees	6,139,941	6,249,783	6,381,669	131,886
Land and permanent fund	231,012	231,012	285,230	54,218
Endowments and private gifts	10,000	-	-	-
Other	21,943,351	21,804,460	17,498,485	(4,305,975)
Total revenues	73,615,523	64,129,038	60,486,598	(3,642,440)
Cash balance budgetd	364,987	(613,704)	1,690,514	-
Total revenues and cash balance budgeted	73,980,510	63,515,334	62,177,112	(3,642,440)
Expenditures				
Instruction and general	\$ 27,667,291	31,573,467	29,461,986	(2,111,481)
Student social and cultural	365,393	371,639	360,099	(11,540)
Research	12,770,863	5,295,888	3,235,938	(2,059,950)
Public service	9,921,683	9,503,846	7,114,453	(2,389,393)
Internal service departments	71,000	223,567	34,977	(188,590)
Student aid	3,946,381	5,024,147	4,945,305	(78,842)
Auxiliary enterprises	2,223,440	2,110,702	2,067,680	(43,022)
Intercollegiate athletics	1,398,193	1,399,293	1,456,863	57,570
Capital outlay	12,540,000	5,297,164	7,376,223	2,079,059
Renewal and replacements	1,015,934	1,015,934	678,034	(337,900)
Retirement of indebtedness	1,205,355	1,459,755	1,475,069	15,314
Total expenditures	73,125,533	63,275,402	58,206,627	(5,068,775)
Change in net assets-budgetary basis	\$ 854,977	239,932	3,970,485	1,426,335

NEW MEXICO HIGHLANDS UNIVERSITY
 UNRESTRICTED CURRENT FUNDS
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition & miscellaneous fees	4,857,883	4,857,883	4,970,456	112,573
Miscellaneous fees	821,605	931,447	949,075	17,628
Government appropriations-federal	-	-	-	-
Government appropriations-state	21,569,500	21,569,500	21,559,800	(9,700)
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	231,012	231,012	285,230	54,218
Private gifts	10,000	-	-	-
Sales & service	3,087,300	3,195,715	2,624,868	(570,847)
Other sources	1,870,770	1,926,773	2,546,546	619,773
Total revenues	32,448,070	32,712,330	32,935,975	223,645
Cash balance budgeted	164,464	(1,403,468)	585,281	1,988,749
Total revenues and cash balance budgeted	32,612,534	31,308,862	33,521,256	2,212,394
Expenditures				
Instruction and general	\$ 24,267,291	24,285,568	23,713,878	(571,690)
Student social and cultural	333,393	360,421	344,745	(15,676)
Research	770,863	535,149	448,288	(86,861)
Public service	921,683	927,668	807,634	(120,034)
Internal service departments	51,000	(37,534)	(229,418)	(191,884)
Student aid	346,381	302,381	257,460	(44,921)
Auxiliary enterprises	2,123,440	2,074,012	2,034,769	(39,243)
Intercollegiate athletics	1,383,193	1,395,793	1,449,712	53,919
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Total expenditures	30,197,244	29,843,458	28,827,068	(1,016,390)
Change in net assets-budgetary basis	\$ 2,415,290	1,465,404	4,694,188	3,228,784

NEW MEXICO HIGHLANDS UNIVERSITY
 UNRESTRICTED CURRENT FUNDS
 SUMMARY OF INSTRUCTION AND GENERAL
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition & miscellaneous fees	\$ 4,857,883	4,857,883	4,970,456	112,573
Miscellaneous fees	411,605	519,122	512,535	(6,587)
Government appropriations-federal	-	-	-	-
Government appropriations-state	19,552,300	19,552,300	19,552,600	300
Government appropriations-local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	231,012	231,012	285,230	54,218
Private gifts	-	-	-	-
Sales & service	100,000	101,030	53,451	(47,579)
Other sources	1,850,000	1,860,180	2,218,703	358,523
Total revenues	27,002,800	27,121,527	27,592,975	471,448
Cash balance budgeted	154,013	(1,301,356)	232,668	1,534,024
Total revenues and cash balance budgeted	27,156,813	25,820,171	27,825,643	2,005,472
Expenditures				
Instruction	12,425,625	11,863,966	11,519,927	(344,039)
Academic support	2,183,562	2,134,886	2,138,990	4,104
Student services	2,248,080	2,150,436	1,978,738	(171,698)
Institutional support	3,947,800	4,691,036	4,619,059	(71,977)
Oper. & maint. of plant	3,462,224	3,445,244	3,457,164	11,920
Total expenditures	24,267,291	24,285,568	23,713,878	(571,690)
Change in net assets-budgetary basis	\$ 2,889,522	1,534,603	4,111,765	2,577,162

NEW MEXICO HIGHLANDS UNIVERSITY
 RESTRICTED CURRENT FUNDS
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	23,721,719	14,274,283	11,705,958	(2,568,325)
Government grants - state	3,662,281	8,924,037	6,075,566	(2,848,471)
Contracts -local	-	-	-	-
Private grants/contracts	783,000	2,425,762	2,030,959	(394,803)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	35,009	-	(35,009)
Total revenues	28,167,000	25,659,091	19,812,483	(5,846,608)
Cash balance budgetd	-	-	-	-
Total revenues and cash balance budgeted	28,167,000	25,659,091	19,812,483	(5,846,608)
Expenditures				
Instruction and general	3,400,000	7,287,899	5,748,108	(1,539,791)
Student social and cultural	32,000	11,218	15,354	4,136
Research	12,000,000	4,760,739	2,787,650	(1,973,089)
Public service	9,000,000	8,576,178	6,306,819	(2,269,359)
Internal service departments	20,000	261,101	264,395	3,294
Student aid	3,600,000	4,721,766	4,687,845	(33,921)
Auxiliary enterprises	100,000	36,690	32,911	(3,779)
Intercollegiate athletics	15,000	3,500	7,151	3,651
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Total expenditures	28,167,000	25,659,091	19,850,233	(5,808,858)
Change in net assets-budgetary basis	\$ -	-	(37,750)	(37,750)

NEW MEXICO HIGHLANDS UNIVERSITY
 RESTRICTED CURRENT FUNDS
 SUMMARY OF INSTRUCTION AND GENERAL
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Tuition	\$ -	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	900,000	4,111,503	3,155,314	(956,189)
Government grants - state	2,000,000	3,009,687	2,493,434	(516,253)
Contracts -local	-	-	-	-
Private grants/contracts	500,000	166,709	99,854	(66,855)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	3,400,000	7,287,899	5,748,602	(1,539,297)
Cash balance budgetd	-	-	-	-
Total revenues and cash balance budgeted	3,400,000	7,287,899	5,748,602	(1,539,297)
Expenditures				
Instruction	2,620,577	5,864,325	4,770,965	(1,093,360)
Academic support	153,359	73,489	48,077	(25,412)
Student services	490,268	1,265,698	862,471	(403,227)
Institutional support	111,796	76,260	58,703	(17,557)
Oper. & maint. of plant	24,000	8,127	7,892	(235)
Total expenditures	3,400,000	7,287,899	5,748,108	(1,539,791)
Change in net assets-budgetary basis	\$ -	-	494	494

NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
 Year Ended June 30, 2003

	Pledged Collateral		Total
	Safekeeping Location	Type of Security	
Funds on deposit			
Demand deposits	Bank of Las Vegas, NM	Wells Fargo Albuquerque NM	\$ 3,293,702 2,044,117 5,337,819
FDIC insurance	(100,000)	(100,000)	(200,000)
Demand deposits	3,193,702	1,944,117	5,137,819
Total uninsured public funds	1,596,851	972,059	2,568,910
Fifty percent collateral requirement per section 6-10-17 NMSA			
Pledged collateral	Federal Home Loan Bank Dallas Tx	Fannie Mae CUSIP #3890003108	949,715 - -
		Treasury notes CUSIP #912828AB6	561,858 - -
(Excess) of pledged collateral over the required amount	\$ 85,278	972,059	2,568,910

NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
 For the Year Ended June 30, 2002

Name of Bank	Account Number	Balance per Bank Statement	Reconciled Balance Per Books
Bank of Las Vegas			
Account payable account	Checking	\$ 2,481,686	\$ 629,282
Payroll account	Checking	685,524	662,017
University wire-transfer account	Checking	5,603	5,603
Cash receipts account	Checking	38,095	51,223
Cashier's credit card account	Checking	59,490	61,506
Direct lending account	Checking	668	668
Flexible spending	Checking	22,636	22,636
Wells Fargo Bank - Albuquerque			
Endowment pool account	Money Market	1,722,005	139,800
Rio Rancho	Checking	129,943	130,786
Rio credit card	Checking	92,169	92,516
Business account	Checking	100,000	2,619,568
Petty cash		-	8,920
Total cash and cash equivalents		\$ 5,337,819	\$ 4,424,525

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2003

Federal Grantor/Program Title	Federal CFDA #	Expenditures
Research and Development Cluster		
NASA -ANO Ronald Clark	43.001	\$ 37,688
NASA -ANO Visiting Researchers	43.001	120,298
NASA -ANO Subawards	43.001	184,785
NASA -JSC Astrobiology	43.001	147,293
CCD Photometry of Vesta	43.001	24,773
NASA /Development of Polymers	43.001	70,918
NASA/Study of Forest Fires	43.001	40,007
MASA/Hydrocode Simulations 01-02	43.001	23,541
NASA/Hydrazine Air Filt. 1/02-/05	43.001	124,249
NASA/-Astrobiology Inst. 8/02-08/05	43.001	134,188
NASA/NMHU Stu. Research. 8/02-07/03	43.001	39,971
NASA/AMES Stu. Research 12/02-12/05	43.001	5,221
NSF-Instrumentation Mineral 8/02-7/03	47.050	8,552
MBRS Shaw 8-98 7-99	93.375	160
NIH Score -Shaw	93.375	3,426
NIH Score Admin. 9/01-8/02	93.375	19,761
NIH Score Sammeth 9/01-8/02	93.375	52,323
NIH Score Shaw 9/01-8/02	93.375	20,579
NIH Score Fox 9/01-8/02	93.375	16,709
NIH Score Home 9/01-8/02	93.375	35,917
NIH/Bridges 4/00- 3/2003	93.375	135,276
NIH Score Admin. 9/02-8/03	93.375	96,775
NIH Score -Horne 9/02-8/03	93.375	125,148
NIH Score -Fox 9/02-8/03	93.375	110,377
NIH Score -Hill 9/02-8/03	93.375	21,268
NIH Score -Sammeth 9/02-8/03	93.375	123,516
NIH Score -Wiedenfeld 9/02-8/03	93.375	117,204
NIH Score -Shaw 9/02-8/03	93.375	67,768
NIH Score -Meyer 9/02-8/03	93.375	88,971
MBRS-Converting Technology 09/02-8/	93.375	249,972
PhD/Bridges Program	93.906	17,058
Total Research and Development Cluster		2,263,692

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Year Ended June 30, 2003

Federal Grantor/Program Title	Federal CFDA #	Expenditures
Student Financial Aid Cluster		
Federal SEOG 1999-2000	84.007	\$ 175,889
FED W/S Instruction	84.033	73,318
FED W/S Academic Support	84.033	17,405
FED W/S Student Services	84.033	71,201
FED W/S Institutional Support	84.033	12,416
FED W/S Operation & Maint.	84.033	2,433
FED W/S Social & Cultural	84.033	13,190
Fed W/S -- Organized Research	84.033	453
FED W/S Public Service	84.033	13,751
FED W/S Internal Service	84.033	3,069
FED W/S Auxiliaries	84.033	16,787
FED W/S Athletics	84.033	3,718
Financial Aid -Admin Allow	84.033	50,669
FED W/S America Read/Counts	84.033	12,846
Fed Off Campus W/S 2001-2002	84.033	13,061
Federal PELL 1999-2000	84.063	3,032,854
Total Student Financial Aid Cluster		<u>3,513,060</u>
TRIO Programs Cluster		
Support Services 1998-99	84.042A	17
Support Services 01-02	84.042A	476,697
Upward Bound 6/99-5/00	84.047A	805
Upward Bound 6/97-5/98	84.047A	179
Upward Bound 6/00-5/01	84.047A	310
Upward Bound 6/01-5/02	84.047A	377,032
Upward Bound 6/03 - 5/04	84.047A	68,781
Total TRIO Programs Cluster		<u>923,821</u>
U.S. Department of Labor		
GOAL Program 10/99-4/02	17.253	<u>984,823</u>
U.S. Department of Housing and Urban Development		
Science Building-HUD	14.246	<u>571,642</u>
U.S. Bureau of Land Management		
Forest Management Prog. 9/1-8/02	10.652	69,112
HU Forest Management Prog. 9/01-8/02	10.652	1,013
Total U.S. Bureau of Land Management		<u>70,125</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Year Ended June 30, 2003

Federal Grantor/Program Title	Federal CFDA #	Expenditures
National Aeronautics and Space Administration		
AISTEC-Admin 12/99-11/00	43.001	\$ 52,915
AISTEC-Technology Ctr 7/01-7/02	43.001	13,386
NASA/Educational Outreach FY02	43.001	27,223
NASA/Reaching Out for Science FY02	43.001	15,620
Total National Aeronautics and Space Administration		<u>109,144</u>
U.S. Department of Energy		
Science Building - DOE	81.049	<u>2,459,034</u>
National Science Foundation		
Increasing Minority Grade/CS	47.076	<u>26,571</u>
U.S. Department of Education		
US Dept of ED/SWCC 10/00-9/01	84.283	6,751
US Dept. of Ed/SWCC-Admin.	84.283A	696,370
US Dept. of Ed/SWCC-Part 10/01-9/02	84.283A	293,827
US Dept of Ed/SWCC-Admin 10/02-9/03	84.283A	78,841
US Dept of Ed/SWCC-Part 10/02-9/03	84.283A	288,239
NMHU Dist. Ed Project 10/01-09/02	84.031S	381,652
Dept. of Ed. - Rehab. Counseling	84.129B	99,876
Training for all Teachers 01-02	84.195B	34,888
Training for All Teachers FY03	84.195B	158,940
Dept. of Ed. - Career Ladder	84.195E	200,268
Bilingual Ed. Career Ladder FY03	84.195E	61,424
San Miguel GEAR -UP	84.334A	1,148,321
Bilingual Ed. Career Ladder/Espanol	84.195.E	102,991
CAMP-College Assist. Migrant Prog	84.149A	222,992
Total U.S. Department of Education		<u>3,775,380</u>
U.S. Department of Health and Human Services - Passed through NM Department of Children Youth and Families		
CYFD FY 2000-2001	93.658	2,290
CYFD FY 2001-2002	93.658	143,350
CYFD FY 2002-2003	93.658	1,802,345
Passed through NM Human Services Department		
WORK Program 6/99-6/00	93.558	1,643
WORK Program 6/01-6/02	93.558	2,042,519
Total U.S. Department of Human Services		<u>3,992,147</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Year Ended June 30, 2003

Federal Grantor/Program Title	Federal CFDA #	Expenditures
U.S. Department of the Interior		
DOI Water Resource Inst	15.805	\$ 31,233
DOI-MESA 10-01-01 to 09-30-02	15.805	<u>2,379</u>
Total U.S. Department of the Interior		<u>33,612</u>
Total federal awards expended		<u>\$ 18,723,051</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 Perkins Loan Program. Total outstanding loans under this U.S. Department of Education program at June 30, 2003 were \$8,830,021.

Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2003, were \$258,523.

During the fiscal year ended June 30, 2003, the Institute processed \$6,540,793 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	\$ 55,754
Grambling State University	43.001	15,751
Midcontinental Regional Education	84.283	328,336
New Mexico Institute of Mining & Technology	43.001	56,906
Rio Arriba County Works	47.071	365,173
Southam, Gordon	43.001	35,300
Spelman College	43.001	32,369
University of Alabama	43.001	128,587
University of Texas El Paso	43.001	29,340
University of Western Ontario	43.001	4,043
West Ed.	84.283	322,314

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
Toney Anaya, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We have audited the financial statements of the New Mexico Highlands University (University), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 24, 2003. 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 03-17.

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
Toney Anaya, 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 03-1 through 03-6.

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

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 24, 2003

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
Toney Anaya, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

Compliance

We have audited the compliance of the New Mexico Highlands University (University) with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-7 through 03-14.

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
October 24, 2003

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 Year Ended June 30, 2003

Finding	Status
99-1 Endowment Investment Policy	Repeated
99-2 Student Accounts Receivable	Repeated
01-2 Cash Balances and Bank Reconciliations	Resolved
01-4 Restricted Fund Receivables and Deferrals-Material Weakness	Resolved
01-7 Budget Overspending	Repeated as 03-15
01-8 Software Implementation	Resolved
01-9 Computer Policies and Procedures	Repeated
01-10 Fund Deficit	Resolved
01-19 Federal Cash Management	Resolved
02-2 Trio Program-Unallowable Cost	Modified and Repeated
02-3 TRIO – Upward Bound Program	Resolved
01-23 Information Technology Plan	Resolved
02-1 Accounts Receivable	Resolved

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

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

	CFDA #
• Title VII	84.195
• Student Financial Aid Cluster	Various
• TRIO Program Cluster	Various
• WORK	93.558
• CYFD	93.658
• Science and Engineering Building	81.049
8. The threshold for distinguishing Type A and Type B programs was \$561,692.
9. New Mexico Highlands University was determined to be a high risk auditee.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-1 Budget Adjustment Requests

Condition

NM Highlands did not obtain CHE or DFA approval for the FY 2003 budget adjustment to the Unrestricted funds.

Criteria

NM Highlands is required to obtain CHE and DFA approval for all budget adjustment requests.

Effect

The University is consequently operating in a budget deficit as of June 30, 2003.

Cause

CHE will not approve a budget adjustment request if it will cause a budget deficit and consequently, DFA will not grant approval.

Recommendation

The University should obtain CHE and DFA approval for all budget adjustment requests.

Response

The University is aware of a state law prohibiting the approval by CHE of budgets that project deficits. However, the University submitted its only BAR of FY03 to CHE anyway, in order to "publicly" establish May 1 projected ending fund balances and to accurately reflect in those balances anticipated year-end adjustments.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-2 Segregation of Duties

Condition

In developing an understanding of internal controls related to information technology, we noted that several employees had access to the following two functions in the Banner payroll module: (1) Create an employee and (2) Create a payroll check.

Criteria

Internal controls are designed to safeguard assets and help prevent losses from employee dishonesty or error. A fundamental concept in an adequate system of internal control is the segregation of duties. Within payroll applications, the ability to create employees and the ability to create payroll checks should be segregated.

Cause

User profiles in the Banner system allow the same individuals to both create new employees and create payroll checks.

Effect

Fictitious employees could be created, or other unauthorized payroll transactions could be made.

Recommendation

Banner user profiles should be reviewed based on employee job responsibilities. The ability to create an employee should be segregated from the ability to create a payroll check.

Response

In order to resolve some of the material weaknesses listed in the FY01 audit, the University responded as follows (Page 59):

“In order to correct the causes of the finding and to oversee the entire payroll function more effectively, the University will centralize the following functions within the payroll department:

1. Payroll Accounting: salary distribution and re-distributions, reconciliation to the general ledger of all payroll liability accounts, wages, third party vendor billings ... and tax reports.
2. Centralization of all paperwork and data entry required to produce the University biweekly payroll; including, but not limited to, employment contracts, W-4 forms, insurance enrollment forms, and exception hours worked.”

Since the material weaknesses and major finding have been resolved since FY01, the University will now review job responsibilities between Payroll and Human Resources in order to appropriately separate the employment and payroll functions.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-3 Accounts Receivable – Restricted Funds

Condition

Accounts receivable for restricted funds at year-end is determined by calculating the difference between revenues and expenditure for the year.

Criteria

It is good accounting practice to ensure that receivable balances equal actual receivables and are not based upon a calculation.

Cause

Charges were not monitored in a timely manner.

Effect

Receivable balances cannot be traced to actual receivables. It is possible that drawdown amounts might not be paid as expected and timely detected and investigated

Recommendation

The University should implement policies and procedures wherein receivable balances are investigated and compared to actual receivables by fund.

Response

The University concurs with this finding. Staff will implement procedures to reconcile all receivables on a monthly basis and to verify all year-end account receivable balances by fund.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-4 Under Collateralized Accounts

Condition

The University has money at two institutions that was not collateralized at fifty percent.

Criteria

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

Effect

Two cash accounts were under collateralized by \$85,287 and \$922,059 at June 30, 2003.

Cause

One of the banks was not aware that the account was related to a governmental entity and the other bank did not have sufficient funds to cover the balance as of June 30.

Recommendation

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

Response

The University concurs with this finding and will verify collateralization requirements on a regular basis.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-5 Special Audit

Condition

The University contracted with a CPA firm to provide a special audit on the payroll/human resource and accounts payable system, specifically supplemental pay and travel/per diem reports also see finding 03-6. The CPA firm noted the following:

- The University policies and procedures may not be in compliance with A-21 "Cost principles for Educational Institutions".
- The University paid individuals in excess of their permanent and supplemental contracts or supplemental contracts could not be found to justify the amount paid to the employees.
- The payroll system does not accurately record the additional hours on supplemental contracts.
- Stipend payments do not appear to have been reviewed to determine whether a Form 1099 is required to be issued.
- The CPA firm could not determine whether the individuals were actually receiving stipend payments.

Criteria

- The University is required to follow OMB Circular A-21 "Cost principles for Educational Institutions"
- The University must ensure that all employees have current and valid permanent and supplemental contracts in their personnel files and that these contracts agree to the total amount paid to the employees. In addition, the hours worked within these contracts must be recorded within the payroll system.
- Stipend payments must be monitored to ensure that the payees actually received stipend checks and that the University is in compliance with Federal reporting requirements.

Cause

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

Effect

The CPA firm could not determine whether employees were over paid on supplemental contracts or whether the stipend payments are correct and have been reported to the IRS as required.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-5 Special Audit (Continued)

Recommendation

- The University should review its policies regarding salaries from grants to ensure that the University policy conforms to OMB Circular A-21.
- The University should investigate whether there are methods to disburse lump sum payments to employees so that the payroll system maintains accurate hours worked for each employee.
- Employee contracts should be reviewed to ensure that all employees are currently being paid from valid contracts and that permanent or professional appointment contracts are renewed annually.
- Stipend payment methods should be reviewed to determine that all vendors that require a Form 1099 receive one.
- All stipends should be supported by a method documenting that the proper person received the check. This could be done by having each participant sign for the check or by mailing the check to each individual's offsite address.
- All payroll and accounting personnel should participate in fraud prevention training. The training should include information related to their responsibilities for insuring that all expenditures are properly approved. A reporting methodology and system should be established and communicated to the employees insuring they can report real and perceived problems, without fear of reprisal, outside their normal supervisory chain.

Response

- The University Faculty Handbook, which has policy status, was adopted on March 17, 2000 with legal review, and has survived audit since that period. The administration met with program and accounting staff to review the audit recommendation and will seek further clarification. While staff has determined that the University's current policies do not violate OMB Circular A-21, they need to be specified more clearly to avoid misinterpretation. Staff is currently developing a policy directly related to non-faculty compensation for work performed on grants. The new policy will be reviewed for compliance with Circular A-21 before being authorized by the Board of Regents.
- Many of the University's contracts call for percent of release time or performance as opposed to hours worked. Staff believes current employment contracts and "time and effort" verification is sufficient to meet Federal and State guidelines.
- Effective July 1, 2003, the University implemented a procedure by which all employee contracts are to be reviewed to ensure that all employees are currently being paid from valid contracts and that permanent or professional appointment contracts are renewed annually.
- Effective calendar year 2003, the University implemented a procedure by which all stipend payments are to be reviewed to determine that all vendors that require a Form 1099 receive one.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-5 Special Audit (Continued)

Response

- Effective January 4, 2004, the University implemented a procedure by which all stipends are to be supported by a method documenting that the proper person received the check.
- Formal fraud prevention training for University staff, particularly payroll and accounting staff, is scheduled to be provided by Meyners + Company LLC in April 2004, subject to prior approval by the State Auditor. The training is to include information related to employees' responsibilities for insuring that all expenditures are properly approved. A reporting methodology and system will be established and communicated to the employees insuring they can report real and perceived problems, without fear of reprisal, outside their normal supervisory chain.
- The University believes that prior annual audits clearly identified problems in payroll and software implementation. The special audit by Meyners + Company was specifically contracted to determine if fraud did indeed occur. Nothing in the audit report indicates fraud on the part of employees. Proper prosecutorial authorities were not contacted, as reasonable civil proof of evidence could not be determined. (Restitution was made in a case of purchasing claims that were claimed twice.) The University believes proper internal controls to presently be in place and continually strives to strengthen procedures.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

B. FINANCIAL STATEMENTS (CONTINUED)

03-6 OVERLOAD POLICY AND SIGNED CONTRACTS

Condition

In addition to the contracted CPA, we also performed audit procedures on finding 03-5 and noted the following:

- The University does not have current signed contracts for all employees. Three of the six employees tested did not have a current signed contract.
- The overload policy used by the University is not clear. Most of the employees interviewed were unclear on the workings of the policy, and to whom the policy applied.

Criteria

- The University should have signed current contracts for all employees.
- The overload policy should be clear enough to provide guidance for University employees who are being paid on supplementary and overload contracts.

Cause

- The University does not have a procedure to ensure that all employees have a current signed contract before they are hired and paid.
- The University has not updated its policies and procedures for supplemental and overload contracts.

Effect

- The University is paying employees amounts which may or may not be approved in a contract.
- Employees may be receiving overload pay when the University's policy does not provide for overload pay.

Recommendation

- The University should develop a procedure to ensure that all employees working under contract receive new contracts each year. We further recommend that a sample of employees be selected for a contract audit each quarter in order to ensure compliance with the new policy.
- We recommend that a new supplemental and overload pay policy be written. The policy should include clear language as to who may receive the pay, when it is available, what limits there are to the amount which may be received, and who must approve the pay. In addition, it should specify which policies apply to faculty, and which policies apply to non-faculty.

Response

The University concurs with the findings. Recommendation one has been implemented effective the FY-04 fiscal year. Recommendation two will be implemented prior to July 1, 2004.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 Year Ended June 30, 2003

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

<p>03-7 Financial Aid Cluster CFDA Number(s) – Various Program Name(s) – Various Compliance Requirement – N. Special Tests and Provisions</p>	<p>Questioned Costs NONE</p>
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Condition
 During our compliance testwork, we noted that in 3 out of 10 files the refund calculation and notification to students after student withdrawal from school was not completed within 30 days.

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

Cause
 In one case the delay of refund calculation was due to the Financial Aid Board approval of a retroactive withdrawal date by a student. The other two cases had no identified cause.

Effect
 The school was not in compliance with this requirement.

Recommendation
 All withdrawals should be processed within the required 30 days. The Financial Aid Board should not approve the retroactive withdrawal of a student for more than 30 days prior to date of request.

Response
 The Financial Aid Office has made several adjustments in its assignment of duties and responsibilities as a result of the loss of several key people, including the Assistant Director, who was charged with the responsibility of Return to Title IV. In August 2003, an Associate Director was hired, who has been thoroughly trained in Return to Title IV. All policies and procedures pertaining to Return to Title IV have been documented and formalized, and staff has received relevant training.

In order to ensure that all withdrawal activity is being tracked timely, reports are being generated out of MS Access to obtain withdrawal information every 25 days, in the event that formal withdrawal forms are not received timely by the Financial Aid Office or students never consult with the Financial Aid Office prior to withdrawing. The implementation of the Return to Title IV module within SCT Banner is scheduled for May 2004 and will facilitate this process.

In addition, the Associate Director serves on the Academic Affairs Sub-Committee that reviews academic petitions for retroactive withdrawal requests.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

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

03-8	CYFD Program-Unallowable Cost	Questioned Costs \$5,799
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CFDA Number(s) – 93.658
Program Name(s) – CYFD
Compliance Requirement – B. Allowable costs/Cost principles

Condition

During our testing of disbursements for the CYFD program, we noted two out of 12 disbursement tested that is considered to be an unallowable cost. The disbursements were for a new door and the painting of mural for Mortimer Hall totaling \$5,799.

Criteria

Review of the disbursements for the installation of a new door and the painting of the mural are not considered to be an allowable cost per OMB A-21.

Cause

Charges were not monitored in a timely manner.

Effect

The CYFD program had an unallowable cost charge.

Recommendation

The University should maintain a copy of the report received via the Internet showing them the proper amount of cash to be drawn.

Response

The University concurs with this finding and is awaiting request from the current principal investigator to process a correcting journal entry. The journal entry was not requested in a timely manner due to a change in principal investigator of the CYFD grant.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

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

	Questioned Costs
03-9 Trio Program-Unallowable Cost	NONE
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 the following:

- One out of 23 disbursements tested that are considered to be an unallowable cost. The disbursement was coded to the Trio program when it should have been coded to the Gear It Up program.
- We noted that a contract for an employee could not be located in the personnel file verifying the cost charged to the grant.

Criteria

Under OMB A-21, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements.

Cause

There was an account coding error, which resulted in unallowable cost coded to the program and the contract was not kept in the personnel file.

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 and ensure that all contracts are in the personnel file to validate charges made to the program.

Response

The University concurs with this finding. The disbursement coded in error has been corrected and charged to the appropriate program. Effective July 2003, all purchase orders show the full account number (FOAPAL) so that departments can verify accounts for accuracy.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

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

03-10 Cash Management

Questioned Costs
NONE

CFDA Number(s) – Various, 93.658, 84.195 and 93.558
Program Name(s) –TRIO Cluster, CYFD, Title VII and Work Program
Compliance Requirement – C. Cash Management

Condition

During our test work of cash management, we noted that the University's drawdowns did not equal the actual expenditures of the programs.

Criteria

The draw down of cash should be based upon actual expenditures of the University.

Cause

The drawdowns amounts are received and completed via the Internet. The draw down amounts are printed after the transaction is complete, however when the amounts are reconciled to the expense report the monthly expenditures do not match.

Effect

The cash drawn down for expenditures may not be for the proper amount.

Recommendation

The University should maintain a copy of the report received via the Internet showing them the proper amount of cash to be drawn.

Response

The University concurs with this finding. Effective July 2003, the University is using Banner report FGRPDTA to accurately calculate draw-down amounts. In addition, Banner report FGRCASH is being used to verify draw-down amounts and a hard copy is filed along with the internet information.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

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

	Questioned Costs
03-11 Trio Program-Reporting	NONE
CFDA Number(s) – Various	
Program Name(s) –TRIO Cluster	
Compliance Requirement – Reporting	
Condition	
We were unable to obtain a detailed copy of the Upward Bound Annual Performance Report (OMB No. 1840-0762) submitted November 15, 2002	
Criteria	
OMB Circular A-133 requires that the Upward Bound Annual Performance Report be submitted annually and certain key line items be tested.	
Effect	
Detailed records were not maintained to verify key line items contained in the Annual Performance Report.	
Cause	
The Department of Education on-line system did not allow the program to print a detailed copy of what they submitted.	
Recommendation	
The Upward Bound Program should contact the Department of Education before submitting their Annual Performance Report electronically to ensure they can print a detailed copy for an adequate paper trail.	
Response	
The University concurs with this finding. When Upward Bound staff upgraded to reporting via the internet, staff did not know to keep a copy of the report before submitting it. This has been corrected since. A copy of the report referred to in this finding was obtained from Upward Bound on November 10, 2003 and filed in the Grants and Contracts office.	

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

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

Questioned Costs
NONE

03-12 Title VII (CESDP) Program-Subrecipient
CFDA Number(s) – 84.195
Program Name(s) – Training for All Teachers
Compliance Requirement – Subrecipient Monitoring

Condition

The Center for Education and Study of Diverse Population (CEDSP) office did not have a contractual agreement on file for their subrecipient, Ogden School District, indicating the CFDA title and number, award name, name of Federal agency, amount of award and the requirement to follow OMB Circular A-133.

Criteria

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

Effect

The subrecipient may not be fully aware of the federal requirements it must follow in receiving the award money from the University.

Cause

CESDP felt they could properly disclose the information to the subrecipient in other documents, such as PO's.

Recommendation

CESDP should create a contractual agreement that includes the CFDA title and number, the award name, name of the Federal agency, amount of the award, and should outline the requirements that fall under OMB Circular A-133.

Response

The University concurs with this finding and will implement appropriate procedures to follow the auditor's recommendation.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

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

	Questioned Costs
03-13 Suspension and Debarment	NONE
CFDA Number(s) – 84.195 and 93.558	
Program Name(s) – Title VII and WORK	
Compliance Requirement – Suspension and Debarment	

Condition

The University does not have any controls to determine whether a vendor or subrecipient who receives over \$100,000 has been debarred or suspended from contracting for federal monies.

Criteria

Under OMB Circular A-136, Part 6-I, Procurement and Suspension Debarment, the University is required to determine whether all vendors or subrecipients receiving federal funds greater than \$100,000 have been suspended or debarred.

Effect

The University is not in compliance with the suspension and debarment requirements stated under A-136.

Cause

The University was not aware that they were not reviewing vendor contracts and subrecipient agreements to determine whether they have been debarred or suspended

Recommendation

The University needs to implement procedures to ensure that suspension and debarment is tested for all vendor contracts and subrecipients greater than \$100,000.

Response

The University concurs with this finding and will implement appropriate procedures in order to comply with OMB Circular A-136, Part 6-I.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

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

Questioned Costs
NONE

03-14 Allowable Costs

CFDA Number(s) – Various, 93.658, 84.195 and 93.558
Program Name(s) –TRIO Cluster, CYFD, Title VII and Work Program
Compliance Requirement – Allowable Costs

Payroll

Condition

During our test work of cash disbursements, we noted that an individual's pay rate contract could not be located in the file to support amount paid to employee.

Criteria

Authorization of pay rate should be retained in the personnel file to support amount paid throughout the year.

Cause

Items in the personnel files were misplaced or never completed.

Effect

The pay rate actually paid may not reflect the authorized pay rate.

Recommendation

The University should maintain a copy/original pay rate contract in the employee's file.

Response

The University concurs with this finding. Effective June 2003, the University began preparing a Personnel Action Form or an Addendum to Contracts for each employee for FY04. This practice will continue to be followed each fiscal year.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

D. OTHER FINDINGS

99-1 Endowment Investment Policy

Condition

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

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

Response

The University recognizes this exception. The funds were obtained three or more years ago. No new funds exceeding the Board policy have been obtained since the original finding. The University policy will be reviewed and revised as necessary.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

D. OTHER FINDINGS

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.

Response

In August 2002, NMEAF turned all delinquent student accounts over to another collection agency, which is a sub-contractor of NMEAF. The University requested, via NMEAF, that the sub-contractor provide regular statistical collection data that, in combination with University Banner reports, will enable the calculation of actual collection rates and hence the determination of a reasonably accurate allowance for uncollectible student accounts.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

D. OTHER FINDINGS

01-9 Computer Policies and Procedures

Condition

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

Criteria

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

Cause

The University has not adopted computer related policies and procedures.

Effect

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

Recommendation

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

Response

The University concurs with this finding and is committed to developing and adopting appropriate IT policies and procedures

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

D. OTHER FINDINGS

03-15 Travel and Per Diem

Condition

We selected a sample of five reimbursements to test during our documentation of the internal controls over travel and per diem. One of the five vouchers tested had an incorrect per diem amount reimbursed to the traveler (voucher #900024). The travel and per diem policy in place at the University allows a \$6 per diem amount for same day travel that is at least 6 hours, but less than 12 hours. The policy allows for \$13 for travel that is at least 12 hours, but less than 18 hours. The voucher reimbursed \$13 for 10 hours of travel.

Additionally, as part of our review of internal controls, we noted that the Travel Specialist prepares the voucher and enters it into the system. A check run is completed by the Accounts Payable Department. The Specialist receives the travel check after the check run and mails out the payment.

Criteria

The travel and per diem policy in place at the University allows a \$6 per diem amount for same day travel that is at least 6 hours, but less than 12 hours. The policy allows for \$13 for travel that is at least 12 hours, but less than 18 hours. The voucher reimbursed \$13 for 10 hours of travel.

Good accounting controls stipulate that the individual who enters the information for payment of invoices should not receive the checks after they have been completed

Cause

The voucher was not reviewed for correctness.

The Travel Specialist was not aware she was not to receive the checks after they have been written

Effect

The University is not in compliance with its travel and per diem policy.

The Travel Specialist could misappropriate funds

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

D. OTHER FINDINGS

03-15 Travel and Per Diem (Continued)

Recommendation

All vouchers for travel and per diem should be reviewed before approval for payment.

The checks should be sent out or disbursed by someone independent of the preparation of the travel vouchers, such as someone in the Accounts Payable Department.

Response

The University concurs with this finding. Accounts Payable staff is in the process of being cross-trained and will be doing spot checks on travel vouchers for correctness. In the mean time, the Controller has been spot-checking reimbursement calculations. In addition, staff has been trained to avoid checks being sent out or disbursed by the person preparing the travel vouchers.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

D. OTHER FINDINGS

03-16 Human Resources/Payroll

Condition

During our testwork of twenty three employees we noted that one employee's timesheet indicated a different amount of sick leave from the payroll ledger and the accrued sick leave report.

Criteria

Employees should be paid for actual leave taken and the accrued leave report should tie to the timesheet.

Effect

Employee's vacation and/or sick leave balance may not be accurate. The pay rate and hours actually paid may not reflect the actual hours worked and/or authorized pay rate.

Cause

The accrued leave log was not adjusted to reflect actual leave taken by the employee. The employee's leave record reflected less leave time than the amount actually taken.

Recommendation

Human Resources should ensure that leave reports reflect actual hours used and payroll should implement procedures to ensure that leave amounts are recorded properly.

Response

The University concurs with this finding and will verify Human Resources and Payroll records on a regular basis.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003

D. OTHER FINDINGS

03-17 Budget Overspending

Condition

We noted that the University overspent its approved budget in unrestricted current funds by the following: the intercollegiate athletics by \$53,919, and overspent in the restricted current funds by the following: student social and cultural by \$4,138, and intercollegiate athletics by \$3,651.

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 adjustment requests were completed to cover the increase in expenditures.

Effect

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

Recommendation

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

Response

The University concurs with this finding. Currently, all budget overdrafts require Vice-President or Controller approval, certifying that funds are necessary for University operations. In addition, other measures are being implemented to strengthen budget controls.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2003

Exit conferences were held on November 17, 2003 with the following in attendance:

University

Mari-Luci Jaramillo, Vice Chair
L. Michael Messina, Member
Dr. Sharon Caballero, President
Jack Sherman, VP of Finance
Tino Pestalozzi, Controller

Auditors

Scott Peck, CPA Neff + Ricci LLP

The financial statements and notes to the financial statements were prepared by Neff + Ricci LLP.