



November 2015

Financial Audit for Fiscal Year 2015



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PRECISE. PERSONAL. PROACTIVE.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO

BOARD OF REGENTS AND PRINCIPAL OFFICERS.....	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	2
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)	5
MESSAGE FROM THE PRESIDENT	17
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	18
Statement of Revenues, Expenses and Changes in Net Position.....	19
Statement of Cash Flows.....	21
Notes to Financial Statements.....	22
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of Net Pension Liability	47
Schedule of University Contributions to the Educational Retirement Board Pension Plan	48
Notes to Required Supplementary Information	49
SUPPLEMENTAL INFORMATION	
Combined Revenues and Expenditures Budget Comparisons	50
Unrestricted Current Funds Summary of Instruction and General Revenues and Expenditures Budget Comparisons	51
Restricted Current Funds Summary of Instruction and General Revenues and Expenditures Budget Comparisons	52

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO

SUPPLEMENTAL INFORMATION

Schedule of Individual Deposit Accounts and Pledged Collateral	53
Schedule of Multiple-Year Capital Projects Funded by General Obligation Revenue Bond and Severance Tax Bond Capital Outlay Appropriations from the State.....	56
Schedule of Vendor Information (Unaudited)	57
Schedule of Joint Powers Agreements and Memorandums of Understanding.....	58
Schedule of Expenditures of Federal Awards	62
Notes to the Schedule of Federal Expenditures	64

SINGLE AUDIT SECTION

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	65
Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Required by OMB Circular A-133	67
Schedule of Findings and Questioned Costs	70
Summary of Audit Findings	71
Schedule of Findings and Responses	73
Summary of Audit Findings - Component Units.....	82
Schedule of Findings and Responses - Component Units	83
Exit Conference.....	89

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
June 30, 2015

BOARD OF REGENTS AND PRINCIPAL OFFICERS

Board of Regents

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

Principal Administrative Officials

Dr. James Fries	President through June 30, 2015
Dr. Teresita Aguilar	Vice President for Academic Affairs
Dr. Fidel Trujillo	Dean of Students
C. Max Baca	Interim Vice President for Finance & Administration

Principal Financial Officials

Jesus E. Baquera	Controller
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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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ALBUQUERQUE, NM 87110

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ALBUQUERQUE, NM 87125

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of New Mexico Highlands University (the University) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedules presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statement for the year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the University as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, and the budgetary comparisons as of and for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the New Mexico Highlands University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of the New Mexico Highlands University. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. The University's financial statements are included in the financial statements of the State of New Mexico.

As discussed in Note 15, to the Financial Statements, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. As part of implementation of this statement, the University recorded its pro rata share of unfunded liabilities for its pension participation in the Educational Retirement Board Multi-Employer Cost Sharing Pool and included disclosures required by the statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 and the pension schedules on pages 47 to 49 for the University's participation in the Educational Retirement Board Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements and the budgetary comparisons. The accompanying Schedule of Individual Deposit Accounts and Pledged Collateral and Schedule of Joint Powers Agreements, the Bond Schedule, and Memorandums of Understanding, as required by 2.2.2 NMAC and

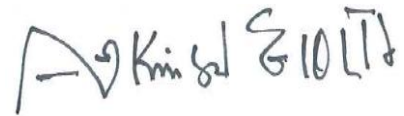
the Schedule of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 16, 2015

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

Introduction

The following discussion and analysis provides an overview of the financial position and analysis of New Mexico Highlands University. It is intended to make the University financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the “University’s” position and results of operations as of and for the year ended June 30, 2015. University management has prepared the financial statements and the related note disclosures in addition to the discussion and analysis. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

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

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

Understanding the Financial Statements

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

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

Statement of Net Position presents the assets, liabilities, and net position of the University at a point in time (June 30, 2015). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University’s operations, how much the University owes to vendors, and investors, and a picture of net assets and their availability for expenditures in the University.

Statement of Revenues, Expenses, and Changes in Net Position presents the total revenues earned and expenses incurred by the University for operating, non-operating, and other related activities during a period of time (the year ended June 30, 2015). Its purpose is to assess the University’s operating results. This statement begins with a presentation of the operating revenues received by the institution. *Operating revenues* are revenues arising from exchange (earned) transactions. In a public university, such as New Mexico Highlands University, income from state government appropriations, although not earned, are heavily relied upon to pay operating expenses for almost all instruction and general programs;

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

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

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

Statement of Cash Flows presents cash receipts and payments of the University during a period of time (year ended June 30, 2015). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

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

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

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

Financial Highlights

During the fiscal year ended June 30, 2015, the University's net position decreased by 63% from \$67.9 million to \$25.3 million and cash and cash equivalents increased by 1.1%, from \$7.8 million to \$9.1 million, due primarily to construction of a new student center.

CONDENSED STATEMENT OF NET POSITION

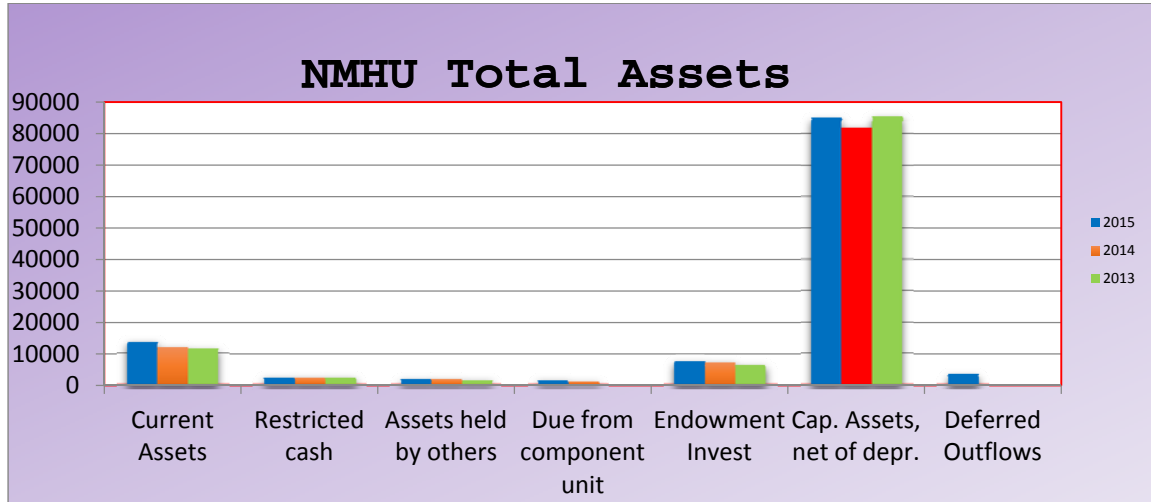
Net Position as of June 30, 2015 and 2014 (thousands)		
	<u>2015</u>	<u>2014</u>
Assets:		
Current assets	\$13,802	\$11,979
Restricted cash	2,324	2,312
Assets held by others	1,764	1,783
Due from component unit	1,466	1,169
Endowment investments	7,369	7,210
Capital assets, net of accum. depr.	84,969	82,796
Deferred Outflows	<u>3,235</u>	<u>-</u>
Total assets	<u>114,929</u>	<u>107,259</u>
Liabilities:		
Current liabilities	10,708	10,545
Non-current liabilities	27,822	28,807
Net Pension liabilities	46,230	-
Deferred Inflows	<u>4,891</u>	<u>-</u>
Total liabilities	<u>89,651</u>	<u>39,352</u>
Net Position:		
Invested in capital assets, net of debt	56,222	53,020
Restricted for nonexpendable	9,002	8,851
Restricted for expendable	5,091	5,061
Unrestricted	<u>(45,037)</u>	<u>975</u>
Total net position	<u>\$25,278</u>	<u>\$67,907</u>

Discussion of Statement of Net Position

Current assets increased 1.1% during the year. The ending balance of \$13.3 million consists primarily of cash/cash equivalents (\$9.1 million), receivables (\$3.7 million) and other (\$476 thousand). All cash and cash equivalents are essential and completely designated for ongoing operations including capital projects. The University attempts to maximize interest earnings by investing funds in the State Investment Council and with the State of New Mexico Local Government Investment Pool. The University has abided by its short term and endowment investment policies, thereby, ensuring liquidity and safety. The University has implemented procedures to collect receivables in a timely manner and is well able to meet all its current financial obligations.

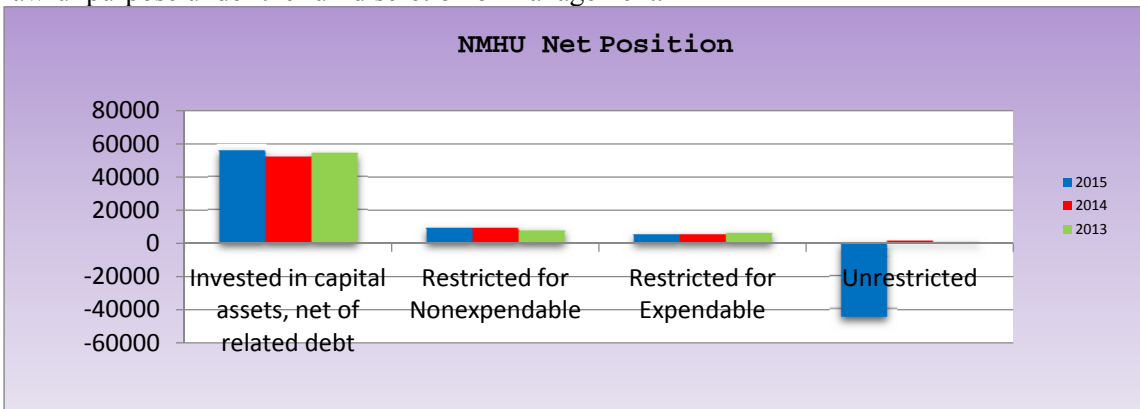
**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

The total cost of **Capital assets** is comprised of land, buildings and improvements, library books, equipment, vehicles, furniture and patents of \$179 million, less accumulated depreciation of \$95 million. All capital assets, except land and construction-in-progress, are being **depreciated**, meaning a percentage of the assets’ cost is being charged to operating expenses each year. Consequently, capital assets are shown as a net amount of \$84 million (\$179 million cost less \$95 million accumulated depreciation).



Total liabilities of \$89.6 million constitute 78% of total assets and consist primarily of payables/accrued liabilities and accrued compensated absences (\$5.7 million), bonds/notes payable (\$28.7 million), accrued interest payable of (\$207 thousand), unearned revenue (\$3.9 million). Unearned revenue represents amounts prepaid by students, auxiliary enterprises customers, grantors and contractors (or amounts received before the University met all of its requirements for income recognition) and net pension liability of (46.2 million). These amounts will be recognized as revenue in future period after all conditions have been satisfied.

Total net position decreased by \$42.6 million or 63%, during the year. The ending balance of \$25.3 million is derived by deducting total liabilities from total assets and shows the composition of the University’s equity. Invested in Capital Assets net of debt are (\$56.2 million). Restricted for nonexpendable (\$9 million) represents the University’s endowment corpus, whereas restricted for expendable (\$5.1 million) represents resources that must be spent according to the stipulations of external entities. Unrestricted net assets (\$-45 million) are available to the University for any lawful purpose under the full discretion of management.



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

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

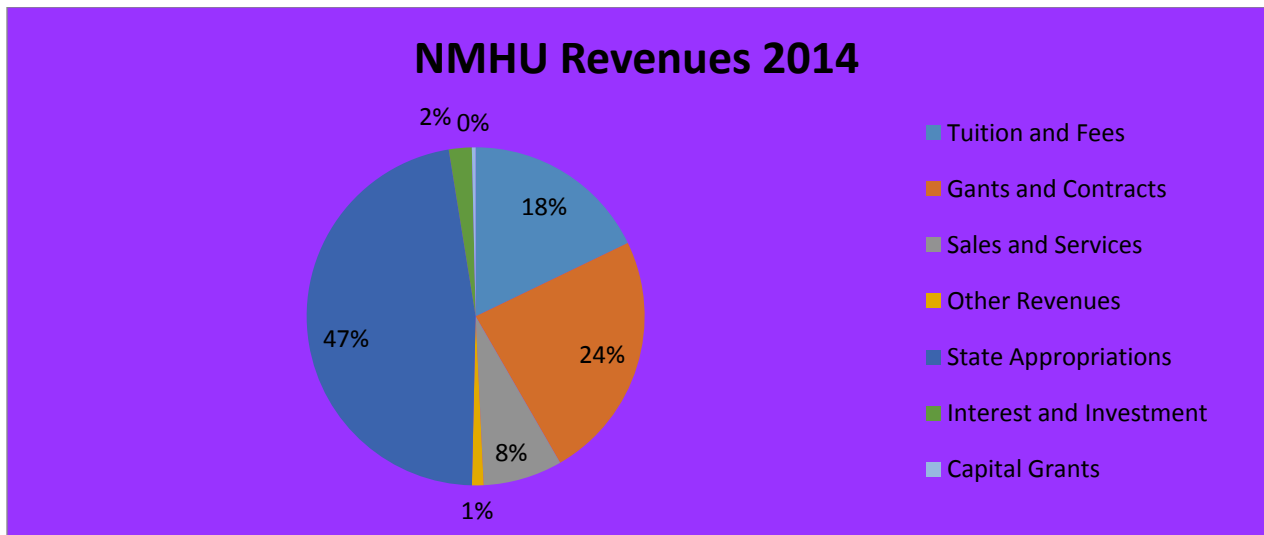
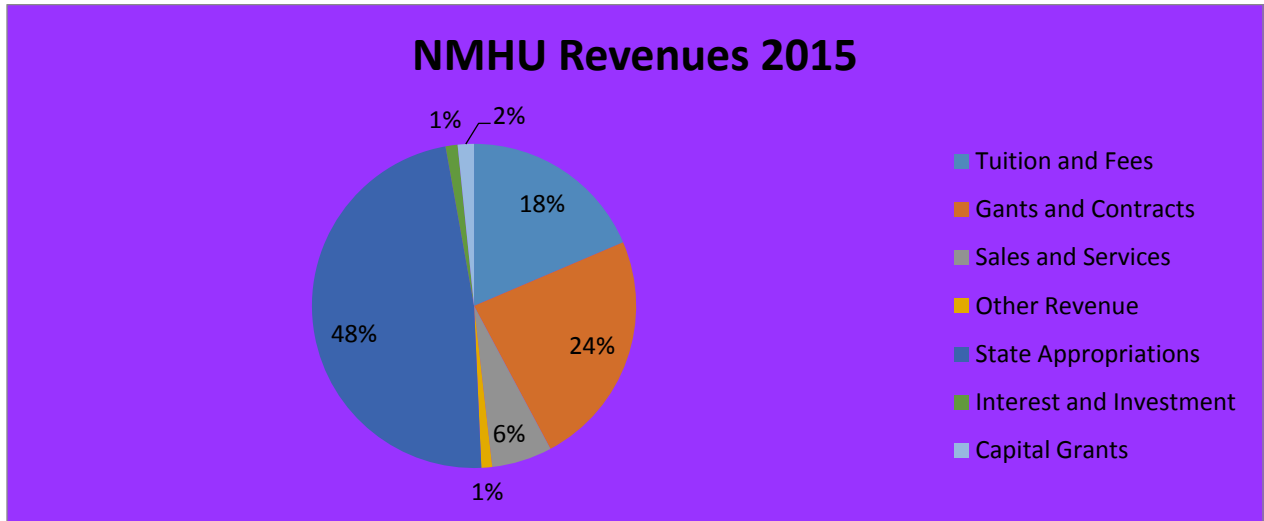
Activities for the years ended June 30, 2015 and 2014 (thousands)		
	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Tuition and fees, net	\$12,243	\$ 11,412
Grants & contracts	15,558	15,239
Sales and services / other revenue	<u>4,679</u>	<u>5,752</u>
Total operating revenues	<u>32,480</u>	<u>32,403</u>
Operating expenses:		
Instruction and general	34,881	36,855
Other operating expenses	24,388	22,840
Depreciation	<u>4,189</u>	<u>3,411</u>
Total operating expenses	<u>63,458</u>	<u>63,106</u>
Operating loss	<u>(30,978)</u>	<u>(30,703)</u>
Non-operating revenue:		
State general fund appropriations	31,565	30,124
Interest and investment income	791	1,402
Capital appropriations	<u>1,068</u>	<u>230</u>
Total Non-operating revenue:	<u>33,424</u>	<u>31,756</u>
Income/(loss) before other revenue, expenses, gains, losses	<u>2,445</u>	<u>1,053</u>
Interest on indebtedness	-	-
Other	<u>2,127</u>	<u>1,811</u>
Total Other	<u>2,127</u>	1,811
Decrease/Increase in net position	<u>319</u>	<u>(758)</u>
Net position, beginning	67,907	68,666
Restatement	<u>(42,947)</u>	<u>0</u>
Net position, ending	<u>\$25,279</u>	<u>\$67,908</u>

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

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

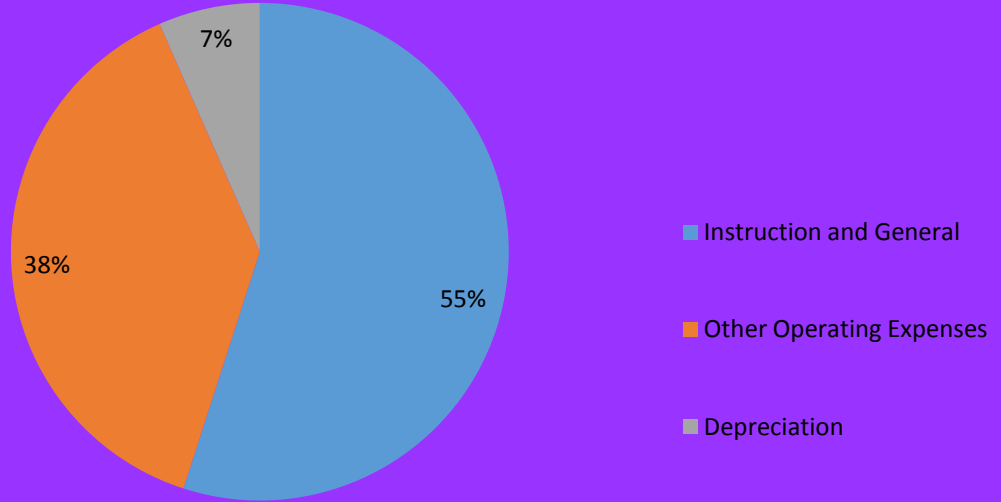
This statement shows the components that increased, in the aggregate. The University’s net position decreased by \$42.9 million during the year. Operating expenses (\$63.5 million) are subtracted from operating revenues (\$32.5 million), resulting in an “operating loss” (\$31 million). State general fund appropriations (\$31.6 million), are not included as operating revenue; however, it is reflected as non-operating revenue, because they are provided to the University without the state receiving commensurate goods and services in exchange. State general fund appropriations are essential for the University to carry out its instructional and public service mission. **“Income/ (loss) before other revenue, expenses, gains and losses”** was (\$2.4 million). Added to this income is \$3.1 million of other income offset by \$2.1 million in capital appropriations revenues (federal and state funds designated for construction projects).

State general fund appropriations increased by \$1.4 million (5%). The state appropriation for general funds for year ended June 30, 2015 was \$31.5 million as compared to state appropriation for year ended June 30, 2014 at \$30.1 million.

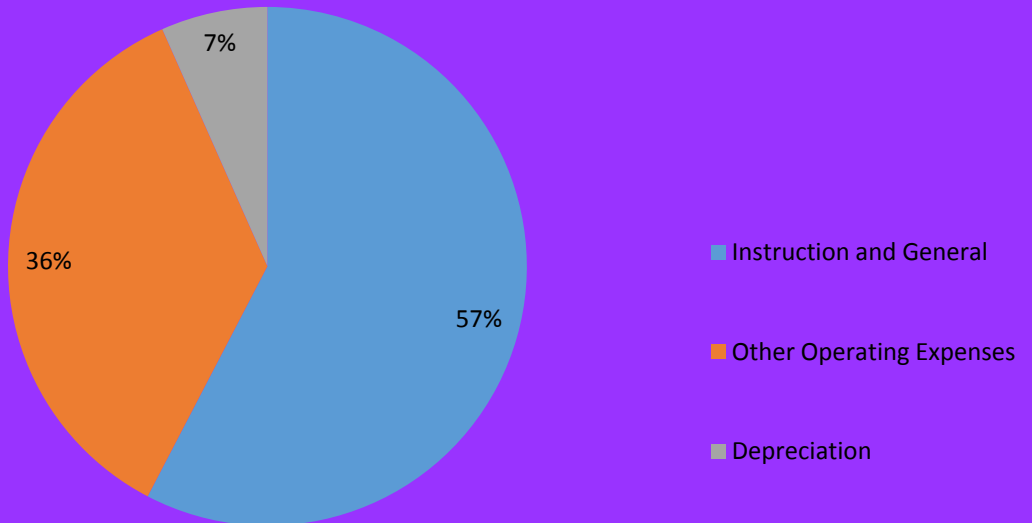


**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

NMHU Operating Expenses 2015



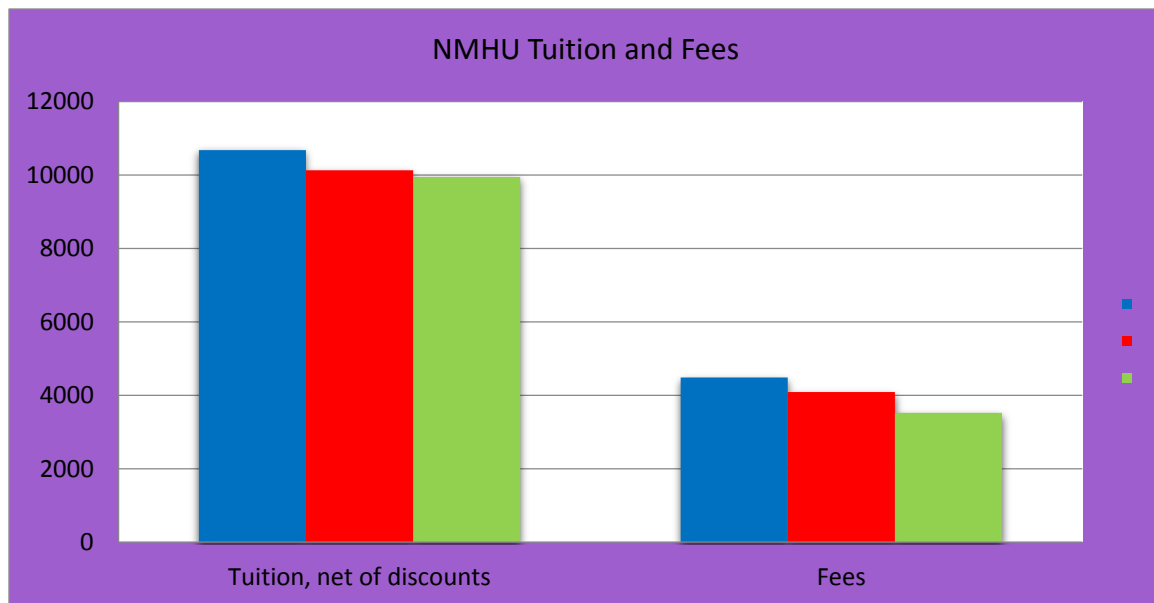
NMHU Operating Expenses 2014



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

Analysis of Tuition and Fees Revenue (thousands)				
	<u>2015</u>	<u>2014</u>	<u>Increase</u> <u>(Decrease)</u>	
Tuition	\$10,681	\$10,129	552	5.4%
Fees	<u>4,488</u>	<u>4,092</u>	<u>396</u>	9.6%
Subtotal	15,169	14,221	948	6.6%
Tuition discounts/allowance	<u>(2,929)</u>	<u>(2,809)</u>	<u>(120)</u>	14.3%
Net	<u>\$12,240</u>	<u>\$11,412</u>	<u>828</u>	4.9%

Tuition and fees, net of discounts and allowances, increased by 4.9%; however, excluding discounts and allowances, which are calculated using a multi-step formula and subtracted from tuition and fees, they increased by \$948 thousand, or 6.6%.



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

CONDENSED STATEMENT OF CASH FLOWS

Statement of Cash Flows for the years ended June 30, 2015 and 2014 (thousands)		
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net cash used by operating activities	\$(26,194)	\$(30,189)
Net cash provided by noncapital financing activities	31,817	30,322
Net cash flow provided by investment activities	539	1,402
Net cash used by capital & related financial activity	<u>(4,864)</u>	<u>(588)</u>
Net increase in cash and cash equivalents	1,298	947
Cash and cash equivalents, beginning of year	<u>7,806</u>	<u>6,859</u>
Cash and cash equivalents, end of year	<u>\$ 9,104</u>	<u>\$ 7,806</u>

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

Discussion of Statement of Cash Flows

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University had a \$891 thousand net increase during the year, resulting in an ending cash balance of \$8.7 million.

Discussion of Budget Comparisons

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

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

Discussion of Significant Capital Projects

As of June 30, 2015, Table listed "Multiple-Year Capital Projects Funded by General Obligation Bonds and Severance Tax Bonds Proceeds Capital Outlay Appropriations from the State of New Mexico," shows few obligations and expenditures for GOBs 14-1303 and 12-1246, as well as STB 13A-1893. The reasons are:

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

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

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

Trolley Building Renovation

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

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

Media Arts is one of the most successful departments at NMHU, now newly housed in the School of Business, Media & Technology. With over 100 declared majors, and minors in Marketing, Computer Science, and Fine Arts, students come to media arts with a diverse set of interests, ranging from photographic imaging to 3D video production. Student opportunities include our AmeriCorps program in Cultural Technology (with 22 students participating in our first year), an internship program with the NM Department of Cultural Affairs, and the annual Seabury Fellowship program. Last year, the University enjoyed the permanent installation of the student designed exhibit “Emergence” at the NM Museum of Natural History and Science, students working at seventeen cultural institutions around New Mexico, presentations at regional and national conferences, and winning design awards in juried shows.

Rodgers Hall Renovation

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

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

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

Infrastructure

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

Factors Impacting Future Periods

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

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

Request for additional Financial Information

This financial report is designed to provide the executive and legislative branches of the State of New Mexico, the public, the University's vendors and other interested parties with a general overview of the financial position as of June 30, 2015, and the results of operations, cash flows, and budget variances for the year for New Mexico Highlands University.

The component units presented in this report - New Mexico Highlands University Foundation, Inc. and Highlands Stable Isotopes Corporation - issue separate stand-alone financial statements.

If you have any questions about this report or separate reports for the component units, or need additional financial information contact the following:

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

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

MESSAGE FROM THE PRESIDENT



Founded in 1893, New Mexico Highlands University is a multicultural university at which Hispanic, Native American, and African American students comprise some 64.4% of the enrollment. Forty percent of our students are studying at the master’s level in the Schools of Education, Social Work, and Business as well as in several areas of strength in the Arts and Sciences. Highlands is widely regarded as northern New Mexico’s university; however, our students come from across the state, the country, and the world with 19 tribes, 42 states and 36 countries represented.

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

Investing in the future includes revamping of our advancement and foundation office. We added new positions and are in the process of hiring a VP for Advancement, and the remaining positions should be fully staffed by the end of calendar year 2015. Secondly, regarding Strategic Enrollment Management, I will be rolling out a comprehensive strategic enrollment management plan; this plan will include new positions, advance analytical tools, implementation of effective best practices, and a robust marketing plan.

Investing in our product prompted us to establish a “Center for Teaching Excellence.” This center will help faculty expand on industry-wide “high-impact” practices, development of undergraduate research opportunities, and “active learning” techniques and activities. New opportunities, the growth with online programs and new areas of study such as allied health degrees and programs, offer Highlands a potential for substantial growth for program that have a natural niche.

As you will see in this report, Highlands has seen some recovery of state funding since the reductions during the recent recessionary period. Highlands was very fortunate this fall 2015 semester and experienced a slight increase in enrollment. This is good news, compared to most institutions across the state and country experiencing double-digit declines. Our revenues outlook seems promising with increases of revenue for the summer and fall; however, we still have challenges in recovery from the recession and decline in state appropriations due to dependency on oil and gas revenues.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF NET POSITION
Year Ended June 30, 2015

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 9,105,109	\$ -	\$ 233,780
Accounts receivable (net of an allowance of \$4,843,744)	914,111	-	-
Grants receivable (net of an allowance of \$411,630)	1,832,668	-	-
Other receivables	1,473,099	-	10,000
Inventories	442,367	-	-
Prepaid assets	34,269	-	3,103
Total current assets	<u>13,801,623</u>	<u>-</u>	<u>246,883</u>
Noncurrent Assets			
Restricted cash	2,324,161	-	113,559
Assets held by others	1,763,960	-	-
Due from component unit	1,466,059	-	-
Investments	7,369,119	-	6,673,077
Capital assets, net of accumulated depreciation	84,968,670	-	6,646,569
Total noncurrent assets	<u>97,891,969</u>	<u>-</u>	<u>13,433,205</u>
Deferred Outflows	3,235,341	-	-
Total assets	<u>\$ 114,928,933</u>	<u>\$ -</u>	<u>\$ 13,680,088</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 4,681,946	\$ -	\$ 6,936
Accrued compensated absences	796,780	-	-
Unearned revenue	3,892,040	-	-
Accrued Interest Payable	207,440	-	1,265
Bonds payable-current	1,055,000	-	-
Notes payable-current	75,000	-	1,086,208
Total current liabilities	<u>10,708,206</u>	<u>-</u>	<u>1,094,409</u>
Noncurrent Liabilities			
Accrued compensated absences	204,577	-	-
Due to University	-	1,466,059	-
Assets held for others	-	-	1,763,990
Bonds payable long-term portion	27,311,427	-	-
Notes payable-long term portion	306,250	-	-
Net Pension Liability	46,229,519	-	-
Total non-current liabilities	<u>74,051,773</u>	<u>1,466,059</u>	<u>1,763,990</u>
Deferred Inflows	4,891,155	-	-
Total liabilities	<u>\$ 89,651,134</u>	<u>\$ 1,466,059</u>	<u>\$ 2,858,399</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 56,222,420	\$ -	\$ 5,560,361
Restricted for			
Nonexpendable	-	-	-
Restricted for scholarships and grants	9,001,729	-	4,180,940
Expendable			
Restricted for scholarships and grants	-	-	582,253
Loans	1,104,939	-	-
Capital projects	535,463	-	-
Debt service	3,450,244	-	-
Unrestricted	(45,036,995)	(1,466,059)	498,135
Total Net Position	<u>25,277,800</u>	<u>(1,466,059)</u>	<u>10,821,689</u>
Total Net Position and Liabilities	<u>\$ 114,928,934</u>	<u>\$ -</u>	<u>\$ 13,680,088</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended June 30, 2015

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
Operating revenues			
Tuition and fees	\$ 15,169,085	\$ -	\$ -
Tuition discounts and allowances	(2,926,051)	-	-
	<u>12,243,034</u>	<u>-</u>	<u>-</u>
Federal grants and contracts	9,004,963	-	-
State and local grants and contracts	4,029,682	-	-
Private grants and contracts	2,523,441	-	-
Sales and services of auxiliary enterprises	3,965,280	-	-
Contributions	-	-	1,146,022
Other	713,393	-	417,584
Total operating revenues	<u>32,479,793</u>	<u>-</u>	<u>1,563,606</u>
Expenses			
Instruction and general			
Instruction	18,180,407	-	-
Academic support	2,603,356	-	-
Student services	3,380,115	-	-
Institutional support	6,269,998	-	-
Operations and maintenance support	4,886,417	-	-
	<u>35,320,293</u>	<u>-</u>	<u>-</u>
Student social/cultural development	950,999	-	-
Research	1,363,314	-	-
Public service	6,883,101	-	-
Student aid grants and stipends	8,183,084	-	318,317
Tuition discounts and allowances	(2,926,051)	-	-
Auxiliary enterprises	3,548,276	-	-
Athletics	2,558,484	-	-
Other expenditures	14,670	296,853	927,665
Pension Expense	3,294,361	-	-
Depreciation	4,188,758	-	57,698
Total operating expenses	<u>63,379,289</u>	<u>296,853</u>	<u>1,303,680</u>
Operating (loss) income	<u>(30,899,496)</u>	<u>(296,853)</u>	<u>259,926</u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION (CONTINUED)
Year Ended June 30, 2015

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
Non operating revenues (expenses)			
State appropriations	\$ 31,564,698	\$ -	\$ -
State land, permanent fund and investment income	252,567	-	-
Interest and investment income/(loss)	538,810	-	143,357
Capital appropriations	1,067,088	-	-
Net non-operating revenues	<u>33,423,163</u>	<u>-</u>	<u>143,357</u>
Income before other revenues, expenses, gains and losses	<u>2,523,667</u>	<u>(296,853)</u>	<u>403,283</u>
Other - non operating expenses			
Additions to permanent endowments	-	-	75,289
Interest on indebtedness	2,205,875	-	-
Total other	<u>2,205,875</u>	<u>-</u>	<u>75,289</u>
(Decrease)/Increase in Net Position	<u>317,792</u>	<u>(296,853)</u>	<u>478,572</u>
Net Position			
Net Position - beginning of year	67,907,161	(1,169,206)	10,343,117
Restatement	(42,947,153)	-	-
Net Position - beginning of year, as restated	<u>24,960,008</u>	<u>(1,169,206)</u>	<u>10,343,117</u>
Net Position, end of year	<u>\$ 25,277,800</u>	<u>\$ (1,466,059)</u>	<u>\$ 10,821,689</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015**

	<u>Primary Institution</u>
Cash Flows From Operating Activities	
Tuition and fees	\$ 12,215,597
Grants and contracts	15,243,573
Sales and services of educational activities	3,868,244
Other operating receipts	713,393
Payments to employees for salaries and benefits	(36,665,366)
Payments to suppliers	(22,360,090)
Net cash used by operating activities	<u>(26,984,649)</u>
Cash Flows From Noncapital Financing Activities	
State appropriations	31,564,698
Land and permanent fund	252,567
Net cash provided by noncapital financing activities	<u>31,817,265</u>
Cash Flows From Investment Activities	
Investment Income	390,796
Net cash provided by investment activities	<u>390,796</u>
Cash Flows From Capital and Related Financing Activities	
State Appropriations for Capital	1,067,088
Cash paid for capital assets	(1,747,210)
Cash paid for renewals and replacements	(943,617)
Repayments of bonds payable	(1,038,779)
Interest payment on bonds	(1,262,258)
Net cash used by capital and related financing activities	<u>(3,924,776)</u>
Net increase in cash and cash equivalents	1,298,636
Cash and cash equivalents, beginning of year	<u>7,806,473</u>
Cash and cash equivalents, end of year	<u>\$ 9,105,109</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating (loss) income	\$ (30,899,496)
Adjustments to reconcile operating (loss) income to net cash used by operating activities	
Depreciation expense	4,188,758
Current year deferred pension contributions	(2,965,121)
Pension expense	3,294,361
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Receivables	(527,281)
Inventories	20,822
Other assets	(302,284)
Accounts payable and accrued expenses	48,174
Unearned revenue	88,295
Compensated absences	69,122
Net cash used by operating activities	<u>\$ (26,984,650)</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

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

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

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The statement of net position is composed of assets + deferred outflows - liabilities - deferred inflows equals net position. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. The University applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. The financial statements of the University are included in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

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

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

- **Highlands Stable Isotopes Corporation (HSI)**

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

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

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

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

Procedures for Approval of Operating Budgets

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

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

The Accompanying Schedules of Budget and Actual, for year ended June 30, 2015, (the “schedule”) is prepared on the basis of accounting prescribed by the State of New Mexico, HED. HED requires budgets for combined revenues and expenditures, current unrestricted instruction and general, and current restricted instruction and general on a basis consistent with the financial reporting model used by the University prior to implementation of GASB Statements No. 34 and 35. Additions to capital assets and debt principal retirements are reported as expenditures on the budget basis, but not on the basis required by generally accepted accounting principles (GAAP). Depreciation expense, scholarship allowance, Perkins Loans/Endowment Scholarship and Endowment/Agency expenditures are GAAP requirements not included on the budget basis submitted to HED.

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

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

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

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

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

Unearned 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 2015 are shown as deferred income in the accompanying financial statements since the session was not completed at June 30, 2015. Unearned revenues also include amounts received from grant and contract sponsors that have not been earned.

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

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 capital assets (including equipment and software), the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year (12-6-10 NMSA 1978). Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University does capitalize historical treasures or works of art.

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

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

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

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

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

Unrestricted Net Position. Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. The amount of net position restricted by enabling legislation is -0- at June 30, 2015.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1. BASIS OF PRESENTATION AND 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 restricted, and then toward unrestricted resources.

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

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

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

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

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

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

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2. CASH AND CASH EQUIVALENTS

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

	New Mexico Highlands University	Component Unit NMHU Foundation
Cashier's Cash	\$ 14,287	\$ -
Bank Deposits	8,860,298	233,780
State Treasurer Local Government Investment Pool	<u>230,524</u>	<u>-</u>
	<u>\$ 9,105,109</u>	<u>\$ 233,780</u>

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

Credit Risk. The University has money market funds and investments in the local government investment pool that are considered cash. As of June 30, 2015, the University's money market accounts are backed by commercial paper and other debt instruments that are rated AAA by Moody's Investor Service.

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

New Mexico State Treasurer Local Government Investment Pool. As of June 30, 2015, the State Treasurer Investment Pool was paying the University .1318 percent per annum. The interest rate is determined by the State Treasurer. The following applies to the State Treasurer Investment Pool:

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

The pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the perspective amounts deposited in the fund and the length of time the amounts fund were invested; and participation is voluntary. The rating of the investments is AAAM by Standard & Poor's and the weighted average maturity is 54.6 days at reset and 77.7 days at final.

NOTE 3. GRANTS RECEIVABLE

As of June 30, 2015, grants receivables consisted of the following:

Federal grants	\$ 570,741
State grants	723,149
Private grants	536,582
Other grants	<u>413,827</u>
Total grants receivables	2,244,299
Allowance for uncollectible grant receivable	<u>(411,630)</u>
Grants receivable, net	<u>\$ 1,832,669</u>

The University receives grant awards and contracts on an annual basis. Grant revenue is recorded when allowable expenditures for each grant are submitted for reimbursement and other eligibility requirements are met.

NOTE 4. OTHER RECEIVABLES

Other Receivables as of June 30, 2015, consisted of the following:

Perkins loan receivable	\$ 706,652
Due from Higher Education Department	199,420
Other	<u>567,027</u>
Other Receivables	<u>\$ 1,473,099</u>

The Due from State of New Mexico consists of amount due for capital projects as of June 30, 2015.

NOTE 5. INVENTORIES

Inventories as of June 30, 2015, consisted of the following:

Facilities services	\$ 226,969
Athletics	190,666
Golf course	<u>24,732</u>
Total inventory	<u>\$ 442,367</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 6. INVESTMENTS

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

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

At June 30, 2015, investments of the University and its components units are summarized as follows:

	Component Unit New Mexico Highlands University	New Mexico Highlands Foundation
State Investment Council	\$ 3,617,174	\$ -
State Investment Council (land grant)	3,751,945	-
Cash & money market funds		421,917
CD's	-	1,004,410
Mutual funds	-	206,617
Common stocks	-	3,698,231
U.S. obligations	-	683,156
U.S. agency obligations	-	-
U.S. corporate bonds	-	658,746
	<u> </u>	<u> </u>
Total Investments	<u>\$ 7,369,119</u>	<u>\$ 6,673,077</u>

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

Credit Risk. The University has an investment policy that requires an allocation percentage of a maximum of 75% of the funds will be invested and a minimum of 35% in both equities and fixed income securities

Foundation Interest Rate. As of June 30, 2015, the Foundation had the following investments subject to interest rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (years)</u>
Cash & Money Market Funds	\$ 421,917	
Certificates of deposit	1,003,946	
Mutual Funds	206,617	
Common Stocks	3,698,231	
Unsettled transactions	464	
U.S. obligations	683,156	2.21
U.S. corporate bonds	658,746	3.28
	<u> </u>	
Portfolio weighted average maturity	<u>\$ 6,673,077</u>	<u>5.49</u>

As of June 30, 2015, none of the Foundation's bank balance was exposed to uncollateralized and uninsured amounts.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 6. INVESTMENTS (CONTINUED)

Foundation Credit Risk. As of June 30, 2015, the Foundation had the following investments subject to investment rate risk:

U.S. Corporate Bonds:

<u>Rating</u>	<u>Fair Value</u>
AA3, BB	<u>\$683,156</u>

U.S. Agency Obligations:

<u>Rating</u>	<u>Fair Value</u>
AA+	<u>\$ 171,804</u>

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

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase in unrestricted net position and are available for expenditure in accordance with donor specifications and in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act (Chapter 46, Article 9A 1-10, NMSA1978). During the current year, donor-restricted endowments had net appreciation of \$287,442 and investment income of \$113,364.

NOTE 7. ASSETS HELD BY OTHERS

As of June 30, 2015, assets held by others consist of the following:

Foundation Endowment	\$1,763,960
Debt Service Reserves	<u>2,324,161</u>
Total Assets Held by Others	<u>\$4,088,121</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8. CAPITAL ASSETS

The following schedule presents the changes in capital assets and accumulated depreciation by major asset category for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 2,793,955	-	-	\$ 2,793,955
Artwork	71,650	-	-	71,650
Patents	73,686	-	-	73,686
Construction-in-progress	-	608,460	-	608,460
Total capital assets not being depreciated	\$2,939,291	608,460	-	\$3,547,751
Other capital assets				
Infrastructure	\$28,647,764	266,809	-	\$28,914,573
Buildings	126,709,411	0	-	126,709,411
Furniture, fixtures and equipment	14,784,702	494,661	182,904	15,096,459
Library materials	8,879,364	377,281	93,078	9,163,567
Total other capital assets	\$ 179,021,241	1,138,751	275,982	\$ 179,884,010
Less Accumulated depreciation for				
Infrastructure	\$ (12,773,324)	\$(1,736,928)	-	\$ (14,510,252)
Buildings	(60,903,798)	(1,694,003)	-	(62,597,801)
Furniture, fixtures and equipment	(13,633,462)	(376,256)	(182,904)	(13,826,814)
Library materials	(7,239,731)	(381,571)	(93,078)	(7,528,224)
Total accumulated depreciation	(94,550,315)	(4,188,758)	(275,982)	(98,463,091)
Other capital assets, net	\$ 84,470,926	\$(3,050,007)	-	\$ 81,420,919
Capital assets summary:				
Capital assets not being depreciated	\$2,939,291	608,460	-	\$3,547,751
Other capital assets	179,021,241	1,138,751	275,981	179,884,011
Total cost of capital assets	181,960,532	1,747,211	275,981	183,431,762
Less accumulated depreciation	(94,550,315)	(4,188,758)	275,981	(98,463,092)
Capital assets, net	\$ 87,410,217	(2,441,547)	-	\$ 84,968,670

Depreciation expense for the year totaled \$4,188,758.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8. CAPITAL ASSETS (CONTINUED)

New Mexico Highlands University Foundation, Inc.

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 2,409,841	\$ -	\$ -	\$ 2,409,842
Artwork	<u>2,637,765</u>	<u>315,090</u>	<u>-</u>	<u>2,952,855</u>
Total Capital Assets not depreciated	4,330,307	315,090	-	5,362,696
Other capital assets				
Buildings held for lease to University	<u>2,250,237</u>	<u>-</u>	<u>-</u>	<u>2,250,237</u>
Less accumulated depreciation for				
Buildings	<u>923,176</u>	<u>57,698</u>	<u>-</u>	<u>980,874</u>
Other capital assets, net	<u>\$ 5,715,066</u>	<u>\$ 659,600</u>	<u>\$ -</u>	<u>\$ 6,632,058</u>
Capital assets summary				
Capital assets not being depreciated	\$ 4,330,307	\$ 315,090	\$ -	\$ 5,362,696
Other capital assets, at cost	2,250,237	-	-	2,250,237
Total cost of capital assets	6,580,544	315,090	-	7,612,943
Accumulated depreciation	<u>(923,176)</u>	<u>(57,698)</u>	<u>-</u>	<u>(980,874)</u>
Capital assets, net	<u>\$ 5,657,368</u>	<u>\$ 257,392</u>	<u>\$ -</u>	<u>\$ 6,632,069</u>

Depreciation expense for the year totaled \$57,698

NOTE 9. RESTATEMENTS

Certain transactions were recorded incorrectly in prior years. The adjustments to beginning net position are detailed below:

<u>Capital Assets</u>	<u>Amount</u>
Adjustment to accumulated depreciation for prior years.	\$ 3,036,904
Adjustment to beginning cost for equipment & furniture.	<u>1,572,036</u>
	<u>\$ 4,608,940</u>

These adjustments increased the prior year beginning net position by \$4,608,940.

GASB 68

The New Mexico Highlands University implemented GASB Statement No. 68 for fiscal year 2015. The new statement required that the net pension liability be recorded for its participation in the Educational Retirement Board Multi-Employer Cost Sharing Pool (ERB). Beginning net position is restated for the ERB plan as follows:

Education Retirement Board (ERB)	<u>\$47,556,093</u>
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NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. ACCOUNTS PAYABLE/ACCRUED AND OTHER LIABILITIES

The \$4,681,946 amount consists of \$1,591,748 of accounts payables and other liabilities, and \$3,090,198 of accrued payroll tax liabilities.

Discretely Presented Component Unit - Foundation
 Foundation's \$21,301 of accounts payables, and \$1,340 of accrued interest liabilities.

Discretely Presented Component Unit – Highlands Stable Isotopes
 \$1,466,059 of accounts payable liabilities.

NOTE 11. LONG-TERM LIABILITIES

Long-term liability activity for the University for the Year ended June 30, 2015, is as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Amount Due Within One Year
A'viands note	<u>\$ 456,250</u>	<u>\$ -</u>	<u>\$ (75,000)</u>	<u>\$ 381,250</u>	<u>\$ 75,000</u>
Bonds payable	<u>\$ 29,400,000</u>	<u>\$ -</u>	<u>\$ (1,035,000)</u>	<u>\$ 28,365,000</u>	<u>\$ 1,055,000</u>
Accrued Compensated balances	<u>\$ 932,235</u>	<u>\$ 1,001,357</u>	<u>\$ (932,235)</u>	<u>\$ 1,001,357</u>	<u>\$ 796,780</u>

New Mexico Highlands University Foundation, Inc.

Long-term liability activity for the year ended June 30, 2015, is as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Amount Due Within One Year
Notes payable	<u>\$ 1,154,156</u>	<u>\$ 94,533</u>	<u>\$ (162,500)</u>	<u>\$ 1,086,208</u>	<u>\$ 167,758</u>

NOTE 12. BONDS PAYABLE AND NOTES PAYABLE

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

Systems refunding revenue bonds services, 2012, issued November 1, 2012, with interest ranging from .93% to 4.26% - final maturity 2034.	\$ 16,445,000
Systems refunding revenue bonds services, 2009A issued October 15, 2009, with interest ranging from 3.00% to 4.50% - final maturity 2021.	2,690,000
Systems refunding revenue bonds services, 2009B, issued October 15, 2009, with interest ranging from 5.32% to 6.07% - final maturity 2035.	9,230,000
Total bonds payable	28,365,000
Less amounts due within one year	<u>(1,055,000)</u>
Long term bonds payable	<u>\$ 27,310,000</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 12. BONDS PAYABLE AND NOTES PAYABLE (CONTINUED)

Debt service requirements for future fiscal years are as follows:

Year	Principal	Interest	Total
2016	\$ 1,055,000	\$ 1,244,638	\$ 2,299,638
2017	1,080,000	1,220,792	2,300,792
2018	1,105,000	1,193,487	2,298,487
2019	1,140,000	1,159,404	2,299,404
2020	1,180,000	1,122,229	2,302,229
2021-2025	6,555,000	4,894,655	11,449,655
2026-2030	7,885,000	3,291,186	11,176,186
2031-2035	<u>8,365,000</u>	<u>1,207,379</u>	<u>9,572,379</u>
Total	<u>\$ 28,365,000</u>	<u>\$ 15,333,770</u>	<u>\$ 43,698,770</u>

A'viands Food & Services note is payable at \$75,000 per year over the next 6 years. The interest rate on the note is 0%.

The Foundation has a note payable which was used to pay off existing real property and indebtedness. This 4% note payable to a bank related to its Rio Rancho land and building. The loan is due in monthly installments of \$17,346 through August 2021, at which time the remaining balance is due. The building is pledged as collateral on the loan; \$94,553 was added to the note during FY 2015.

Note payable	<u>Amount</u>
The note is secured with building and land, current portion	<u>\$ 1,086,208</u>

The note payable to bank is a demand note and shown as current. If the note is not demanded, the scheduled maturity of note payable for the Foundation is as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 167,758
2017	174,593
2018	181,706
2019	189,109
2020	196,814
Thereafter	<u>176,228</u>
	<u>\$ 1,086,208</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 13. UNEARNED REVENUE

As of June 30, 2015, deferred revenue consisted of the following:

Grants and Contract	\$	1,737,962
Tuition		1,375,598
Housing/meal Plan		27,300
Other		662,885
Total	\$	<u>3,803,745</u>

NOTE 14. RISK MANAGEMENT

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

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

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

There has been no settlement that exceeded coverage in the last 3 years.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

**NOTE 15. NOTE DISCLOSURE FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL
RETIREMENT BOARD'S PENSION PLAN**

General Information about the Pension Plan

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

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

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

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

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

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

**NOTE 15. NOTE DISCLOSURE FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL
RETIREMENT BOARD'S PENSION PLAN (CONTINUED)**

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

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

Contributions. The contribution requirements of defined benefit plan members and New Mexico Highlands University are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2015 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions to the pension plan from New Mexico Highlands University were \$3,066,473 for the year ended June 30, 2015.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

**NOTE 15. NOTE DISCLOSURE FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL
RETIREMENT BOARD'S PENSION PLAN (CONTINUED)**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2014. At June 30, 2015, New Mexico Highlands University reported a liability of \$46,229,535 for its proportionate share of the net pension liability. New Mexico Highlands University proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2014. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2014, New Mexico Highlands University's proportion was .81023 percent, which was an increase of .0058 percent from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, New Mexico Highlands University recognized pension expense of \$3,294,361. At June 30, 2015, New Mexico Highlands University reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 688,661
Net difference between projected and actual earnings on pension plan investments	-	4,202,494
Changes in proportion and differences between New Mexico Highlands University contributions and proportionate share of contributions	270,220	-
New Mexico Highlands University contributions subsequent to the measurement date	<u>2,965,121</u>	<u>-</u>
Total	<u>\$ 3,235,341</u>	<u>\$ 4,891,155</u>

\$2,965,121 reported as deferred outflows of resources related to pensions resulting from New Mexico Highlands University contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ 1,293,271
2017	1,293,271
2018	1,290,081
2019	<u>744,312</u>
	<u>\$ 4,620,935</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

**NOTE 15. NOTE DISCLOSURE FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL
RETIREMENT BOARD'S PENSION PLAN (CONTINUED)**

Actuarial assumptions. As described above, the total pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. Specifically, the liabilities measured as of June 30, 2014 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.7% thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

**NOTE 15. NOTE DISCLOSURE FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL
RETIREMENT BOARD'S PENSION PLAN (CONTINUED)**

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2014 and 2013 for 30-year return assumptions are summarized in the following table:

Asset Class	2014 Long-Term Expected Real Rate of Return	2013 Long-Term Expected Real Rate of Return
Cash	1.50%	0.75%
Treasuries	2.00%	1.00%
IG Corp Credit	3.50%	3.00%
MBS	2.25%	2.50%
Core Bonds	2.53%	2.04%
TIPS	2.50%	1.50%
High Yield Bonds	4.50%	5.00%
Bank Loans	5.00%	5.00%
Global Bonds (Unhedged)	1.25%	0.75%
Global Bonds (Hedged)	1.38%	0.93%
EMD External	5.00%	4.00%
EMD Local Currency	5.75%	5.00%
Large Cap Equities	6.25%	6.75%
Small/Mid Cap	6.25%	7.00%
International Equities (Unhedged)	7.25%	7.75%
International Equities (Hedged)	7.50%	8.00%
Emerging International Equities	9.50%	9.75%
Private Equity	8.75%	9.00%
Private Debt	8.00%	8.50%
Private Real Assets	7.75%	8.00%
Real Estate	6.25%	6.00%
Commodities	5.00%	5.00%
Hedge Funds Low Vol	5.50%	4.75%
Hedge Funds Mod Vol	5.50%	6.50%

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

**NOTE 15. NOTE DISCLOSURE FOR EMPLOYER PARTICIPANTS OF THE EDUCATIONAL
RETIREMENT BOARD'S PENSION PLAN (CONTINUED)**

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
New Mexico Highlands University's Proportionate share of the net pension Liability	<u>\$62,900,615</u>	<u>\$46,229,535</u>	<u>\$32,304,783</u>

Pension plan fiduciary net position. Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2014 and 2013 which are publicly available at www.nmerb.org.

Payables to the pension plan. Employers contribution due at June 30, 2015 of \$330,416.

NOTE 16. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

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

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 16. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

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

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

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

The University's contributions to the NMRHCA for years ending June 30, 2014, June 30, 2013, and June 30, 2012 were \$476,313, \$472,833, and \$433,349, respectively which equals the required contributions for each year.

NOTE 17. ALTERNATIVE RETIREMENT PLAN

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan (ARP). With the alternative plan, the University contributes 3% of covered employee's gross salary to ERA and 10.15% to the carrier selected by the employee. The employee contributes 10.10% of his/her gross salary to the carrier they select. Contributions by the University totaled \$86,660 to the NMECA for the alternative retirement plan and \$272,056 to the various carriers for the year ended June 30, 2014. Employees contributed \$292,634 to the various carriers under the alternative plan during the year ended June 30, 2014.

NOTE 18. 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, 2014, was \$141,900 which has been charged to expenditures.

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 19. LEASES

At June 30, 2015, the University had various operating lease arrangements summarized as follows:

Operating Leases. Rent expense for operating leases amounted to \$849,853 for the year ended June 30, 2014. Included in current year rent expense is a lease for a building owned by the Foundation in the amount of \$382,740. The lease agreement expires during the year ended June 30, 2017. There is also a second lease for a parking lot owned by the Foundation in the amount of \$37,000. The leases with the Foundation has been included in the minimum lease payments below.

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2015:

Year Ending June 30	Operating Leases
2016	\$ 870,529
2017	687,618
2018	302,030
2019	488,421
2020-2024	<u>-</u>
	<u>\$ 2,348,598</u>

NOTE 20. COMMITMENTS AND CONTINGENCIES

Commitments. At June 30, 2015, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	\$ 229,069
Plant Funds	\$ 7,732,153

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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

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

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

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

As of June 30, 2015, there is not a final resolution of the Makwa contingency. No amounts have been recorded in the June 30, 2015, financial statements for this potential contingency.

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

NOTE 21. RESEARCH COMMERCIALIZATION

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

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 21. RESEARCH COMMERCIALIZATION (CONTINUED)

Code of 1986 status. The purpose of the corporation is to conduct research and research commercialization in accordance with the needs of the University.

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

Since 2010, the University has provided operating support to HSI on an annual basis principally through payments of research salaries. Total operating expenses provided by the University for FY 2015 including salaries was approximately \$297,000.

NOTE 22. LEASES WITH NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION

The Foundation leases a building it owns in Rio Rancho, New Mexico to New Mexico Highlands University. The Foundation entered into a twenty-year lease agreement on January 30, 1997.

Lease income for the year ended June 30, 2015, was \$382,740. Base rent per month is \$31,895 through the term of the lease. There is also a second lease for a parking lot owned by the Foundation in the amount of \$37,000.

The University has entered into a second operating lease agreement with the Foundation for the 8th Street parking lot adjoining the campus. The Foundation purchased the property in 2014 and has entered into the lease on February 1, 2014, for a five-year period. Monthly rental is \$3,100 per month. Rental income for the year ended June 30, 2015, was \$45,200.

NOTE 23. RECONCILIATION OF BUDGET BASIS TO GAAP

Budget Basis Revenues	\$ 67,912,091
Scholarship Allowance	(2,926,051)
Unbudgeted exhibits	(727,528)
L&P Investment income	54,009
Loan	61,722
Endowment	217,539
Agency	244,084
Capital Appropriation	1,067,088
Revenues Per GAAP	<u>\$ 65,902,954</u>
Budget Basis Expenditures	\$ 66,428,997
Scholarship Allowance	(2,926,051)
Capital Expenditures	(1,747,211)
Bond Payments	(1,110,000)
Other	30,885
Unbudgeted exhibits	84,412
Endowment/agency Expenditures	95,516
Agency Expenditures	210,618
Pension Expense	329,240
Depreciation Expense	4,188,759
Expenditures Per GAAP	<u>\$ 65,585,165</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 24. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 16, 2015, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2015. Management reviews include the New Mexico Highlands Foundation Inc.. and Highlands Stable Isotopes, Inc. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION**

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

New Mexico Highlands University 's proportion of the net pension liability (asset)	<u>2015</u> .81023%
New Mexico Highlands University 's proportionate share of the net pension liability (asset)	\$46,229,535
New Mexico Highlands University 's covered-employee payroll	\$24,563,595
New Mexico Highlands University 's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53%
Plan fiduciary net position as a percentage of the total pension liability	66.54%

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

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION**

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

	<u>2015</u>
Contractually required contribution	\$ 3,235,341
Contributions in relation to the contractually required contribution	3,235,341
Contribution deficiency (excess) ¹	<u>-</u>
New Mexico Highlands University 's covered-employee payroll	<u>\$ 24,563,595</u>
Contributions as a percentage of covered-employee payroll	13%

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

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

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

Changes of assumptions.

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

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

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

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF BUDGETARY COMPARISONS- BUDGETARY BASIS
COMBINED REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 13,974,722	\$ 4,846,491	\$ 4,872,697	\$ 26,206
Unrestricted & Restricted Revenues				
State general fund appropriations	31,564,700	31,564,700	31,564,698	(2)
Federal revenue sources	9,845,568	9,260,374	9,004,963	(255,411)
Tuition and fees	13,458,410	14,763,668	15,169,085	405,417
Land and permanent fund	220,801	198,558	198,558	-
Private grants/contracts	3,338,592	3,293,645	2,523,440	(770,205)
Sales & service	5,790,293	5,790,293	3,965,278	(1,825,015)
Government grants - state	4,898,308	10,709,416	4,029,682	(6,679,734)
Endowments and private gifts	-	-	-	-
Other	1,032,532	1,083,235	1,456,387	373,152
Total revenues	<u>70,149,204</u>	<u>76,663,889</u>	<u>67,912,091</u>	<u>(8,751,798)</u>
Total Unrestricted & Restricted Revenues	<u>84,123,926</u>	<u>81,510,380</u>	<u>72,784,788</u>	<u>(8,725,592)</u>
Unrestricted & Restricted Expenditures				
Instruction and general	39,202,008	37,846,063	37,143,315	(702,748)
Student social and cultural	998,684	1,031,125	998,937	(32,188)
Research	1,665,480	1,694,377	1,432,036	(262,341)
Public service	8,712,792	8,313,644	7,187,216	(1,126,428)
Internal service departments	37,039	84,720	15,409	(69,311)
Student aid	9,435,129	8,836,133	8,529,693	(306,440)
Auxiliary enterprises	4,468,514	3,561,552	3,516,519	(45,033)
Intercollegiate athletics	2,865,158	2,750,976	2,687,452	(63,524)
Capital outlay	2,112,816	2,000,000	1,275,873	(724,127)
Renewal and replacements	1,271,022	1,271,022	1,269,139	(1,883)
Retirement of indebtedness	2,401,525	2,401,525	2,373,408	(28,117)
Total Unrestricted & Restricted Expenditures	<u>73,170,167</u>	<u>69,791,137</u>	<u>66,428,997</u>	<u>(3,362,140)</u>
Net Transfers	-	-	-	-
Change in net assets-budgetary basis	<u>(3,020,963)</u>	<u>6,872,752</u>	<u>1,483,094</u>	<u>(5,389,658)</u>
Ending Fund Balance	<u>\$ 10,953,759</u>	<u>\$ 11,719,243</u>	<u>\$ 6,355,791</u>	<u>\$ (5,363,452)</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF BUDGETARY COMPARISONS - BUDGETARY BASIS
UNRESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 1,498,774	\$ 1,323,466	\$ 2,351,059	\$ 1,027,593
Revenues				
Tuition	11,273,891	11,273,891	10,680,783	(593,108)
Miscellaneous fees	593,254	593,254	917,419	324,165
Government appropriations-federal	-	-	-	-
Government appropriations-state	28,381,600	28,381,597	28,381,598	1
Government appropriations-local	-	-	10	10
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	220,801	198,558	252,567	54,009
Private gifts	-	-	-	-
Sales & service	1,500	2,582	2,010	(572)
Other sources	767,032	887,016	889,527	2,511
Total revenues	<u>41,238,078</u>	<u>41,336,898</u>	<u>41,123,916</u>	<u>(212,982)</u>
Total Unrestricted Revenues	<u>42,736,852</u>	<u>42,660,364</u>	<u>43,474,975</u>	<u>814,611</u>
Expenditures				
Instruction	20,752,971	19,700,000	18,842,880	(857,120)
Academic support	2,777,830	2,730,000	2,703,474	(26,526)
Student services	3,690,202	3,560,000	3,443,707	(116,293)
Institutional support	6,307,124	6,100,000	6,544,608	444,608
Oper. & maint. of plant	4,998,864	5,153,249	5,103,997	(49,252)
Total expenditures	<u>38,526,991</u>	<u>37,243,249</u>	<u>36,638,665</u>	<u>(604,584)</u>
Net Transfers	2,711,087	2,614,117	3,075,353	461,236
Change in net assets-budgetary basis	<u>-</u>	<u>1,479,532</u>	<u>1,409,898</u>	<u>(69,635)</u>
Ending Fund Balance	<u>\$ 1,498,774</u>	<u>\$ 2,802,998</u>	<u>\$ 3,760,957</u>	<u>\$ 957,958</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF BUDGETARY COMPARISONS - BUDGETARY BASIS
RESTRICTED CURRENT FUNDS
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
Year Ended June 30, 2015

	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	455,682	383,479	291,327	(92,152)
Government grants - state	192,774	192,774	149,642	(43,132)
Contracts - local	-	-	-	-
Private grants/contracts	26,561	26,561	21,089	(5,472)
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
Total revenues	675,017	602,814	462,058	(140,756)
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	675,017	602,814	462,058	(140,756)
Expenditures				
Instruction	410,237	338,034	253,967	(84,067)
Academic support	45,865	45,865	31,113	(14,752)
Student services	136,113	136,113	106,793	(29,320)
Institutional support	41,532	41,532	41,449	(83)
Oper. & maint. of plant	41,270	41,270	28,736	(12,535)
Total expenditures	675,017	602,814	462,058	(140,756)
Change in net assets-budgetary basis	\$ -	\$ -	\$ -	-

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
Year Ended June 30, 2015

	Pledged Collateral		Southwest	Wells Fargo	Community	State	Total
	Safekeeping Location	Type of Security	Capital Bank Las Vegas, NM	Albuquerque NM	1st Bank Las Vegas, NM	Treasurer Santa Fe, NM	
Funds on deposit							
Demand deposits			\$ 1,216,261	\$ 348,474	\$ 7,818,664	\$ 230,524	\$ 9,613,923
FDIC insurance							
Demand deposits			(250,000)	(250,000)	(250,000)	-	(750,000)
Total uninsured public funds			\$ 966,261	\$ 98,474	\$ 7,568,664	\$ 230,524	\$ 8,863,923
Fifty percent collateral requirement per section 6-10-17 NMSA			\$ 483,131	49,237	-	N/A	\$ 532,368
102% collateral requirement 6-10-20 NMSA					\$ 7,720,037		
Pledged collateral							
	Federal Home Loan Bank of Dallas	Irrevocable Standby Letters of Credit No.3033000191			2,500,000		2,500,000
	Federal Reserve Bank	FNMA ARM CUSIP #31416BLS5			27,616		27,616
	Federal Home Loan Bank	FNMA CUSIP #31400H7K3			365,340		365,340
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7			411,656		411,656
	Federal Home Loan Bank	FNMA CUSIP #31418ANZ7			493,987		493,987
	Federal Home Loan Bank	GE Elec Cap Corp Floater Note CUSIP #36966THT2			1,010,007		1,010,007
	Federal Home Loan Bank	FFCB CUSIP #3133ECH80	980,610				980,610
	Bank of New York Mellon	FNMA FNMS CUSIP #3138W3RY1		92,429			92,429
			<u>980,610</u>	<u>92,429</u>	<u>4,808,606</u>	<u>-</u>	<u>5,881,645</u>
Deficiency / (Excess) of pledged collateral over the required amount			\$ (497,479)	\$ (43,192)	\$ (4,808,606)	\$ N/A	\$ (5,349,277)

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)
Year Ended June 30, 2015

Schedule 1
Page 2 of 3

<u>Name of Bank</u>	<u>Account Type</u>	<u>Balance Per Bank Statement</u>	<u>Reconciled Balance Per Books</u>
Southwest Capital Bank - Las Vegas			
Account payable account	Interest bearing checking	\$ 541,083	\$ 11,624
Payroll account	Interest bearing checking	290,155	280,051
University wire-transfer account	Interest bearing checking	5,045	5,045
Cash receipts account	Interest bearing checking	56,746	60,102
Cashier's credit card account	Interest bearing checking	23,724	27,102
Direct lending account	Interest bearing checking	299,508	299,508
Total		<u>1,216,261</u>	<u>683,432</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Non-interest bearing checking	12,499	12,499
Rio credit card	Non-interest bearing checking	13,855	13,855
NMHU business	Non-interest bearing checking	113,630	113,630
Online payments	Non-interest bearing checking	167,872	177,379
NMHU golf course	Non-interest bearing checking	19,891	19,891
Farmington	Non-interest bearing checking	11,602	11,602
NMHU savings	Savings	9,125	9,125
Total		<u>348,474</u>	<u>357,981</u>
Community 1st Bank - Las Vegas			
NMHU golf course	Non-interest bearing checking	6,730	6,951
Capital outlay	Money market account	5,626,677	5,626,677
NMHU savings	Savings	2,185,257	2,185,257
Total		<u>7,818,664</u>	<u>7,818,885</u>
State Treasurer's Office			
Local government investments	Pooled	230,524	230,524
Cashier's cash			
		-	14,287
Total cash and cash equivalents		<u>\$ 9,613,923</u>	<u>\$ 9,105,109</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)

Year Ended June 30, 2015

As of June 30, 2015, cash and cash equivalents recorded in the Foundation's financial statements were as follows.

	<u>1st Community Bank</u>
Cash and cash equivalents	
Cash and cash equivalents at bank	\$ 244,421
Reconciling Items	<u>(10,641)</u>
Cash and cash equivalents recorded in financial statements	<u>\$ 233,780</u>
Cash and cash equivalents balance	\$ 233,780
FDIC insurance	<u>(250,000)</u>
Uninsured amount	<u>\$ -</u>

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF MULTIPLE-YEAR CAPITAL PROJECTS FUNDED
BY GENERAL OBLIGATION REVENUE BOND AND SEVERANCE
TAX BOND CAPITAL OUTLAY APPROPRIATIONS FROM THE STATE
June 30, 2015

Project Description	Authority/Chapter	Laws	Appropriation		Total Appropriation	Bonds Sold to Date	Bonds Unsold	Amount Available	Prior Year Expenditures	Current Year Expenditures	Art in Public Places	Current Year		
			Period	Expiration								Reversion Amount	Unencumbered Balance	
<u>General Obligation Revenue Bond</u>														
GENERAL FUND														
General Obligation 14-1303	Critical Infrastructure Improve	Ch 65 Sec 10/C/3, Laws 2014	2015	6/30/2018	\$ 5,000,000	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -	\$ 109,997	\$ -	\$ -	\$ 4,890,003	
General Obligation 12-1246	Trolley Building	Ch 54 Sec 10/C/3, Laws 2012	2013	6/30/2016	6,000,000	6,000,000	-	6,000,000	104,100	651,548	60,000	-	5,184,352	
General Obligation A12-1234	Library	Ch 54 Sec 10/B/2, Laws 2012	2013	6/30/2016	92,117	92,117	-	92,117	44,227	44,347	-	-	3,544	
Total General Obligation Revenue Bonds					<u>\$ 11,092,117</u>	<u>\$ 11,092,117</u>	<u>\$ -</u>	<u>\$ 11,092,117</u>	<u>\$ 148,327</u>	<u>\$ 805,892</u>	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 10,077,899</u>	
<u>Severance Tax Bond Proceeds</u>														
Severance Tax 13A-1892	Athletic Facilities Improve	Ch 226 Sec 39/1	2013	2013	6/30/2017	\$ 165,000	\$ 165,000	\$ -	\$ 165,000	\$ 79,123	\$ 60,173	\$ 1,650	\$ -	\$ 24,054
Severance Tax 13A-1893	Trolley Building	Ch 226 Sec 39/2	2013	2013	6/30/2017	2,300,000	2,300,000	-	2,300,000	-	45,605	-	-	2,254,395
Severance Tax 14A-2120	Athletic Facilities Improve	Ch 66 Sec 28	2014	2014	6/30/2018	265,000	265,000	-	265,000	-	155,418	2,650	-	106,932
Total Severance Tax Bonds					<u>\$ 2,730,000</u>	<u>\$ 2,730,000</u>	<u>\$ -</u>	<u>\$ 2,730,000</u>	<u>\$ 79,123</u>	<u>\$ 261,196</u>	<u>\$ 4,300</u>	<u>\$ -</u>	<u>\$ 2,385,381</u>	
Total Capital Appropriations					<u>\$ 13,822,117</u>	<u>\$ 13,822,117</u>	<u>\$ -</u>	<u>\$ 13,822,117</u>	<u>\$ 227,450</u>	<u>\$ 1,067,088</u>	<u>\$ 64,300</u>	<u>\$ -</u>	<u>\$ 12,463,279</u>	

NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF VENDOR INFORMATION (UNAUDITED)
Year Ended June 30, 2015

<i>RFB#/RFP #</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
970	Request for bids	Air Care of NM	198100.38	-	5023 Mirador, Albuquerque, NM 87120	Y	N	Air duct cleaning services for eighteen buildings throughout campus
		Steamatic of Abq & SF	22499.5	-	8508 Paseo Alameda NE, Albuquerque, NM 87113	Y	N	
		Indoor Air Technologies, Inc.			33 West Main Street, Victor, NY 14564			
		Mike Garcia Construction			5110 Golondrina NW, Albuquerque, NM 87110			
973	Request for proposals	Atkinson & Co. Ltd.	\$ 90,950.00	-	6501 Americas Parkway NE, Albuquerque, NM	Y	N	Auditing services for NMHU, NMHU Foundation, Inc. and Stable Isotopes, Inc.
		Accounting and Consulting Group, LLC			2700 San Pedro NE, Albuquerque, NM 87110			
		CliftonLarsonAllen, LLP			500 Marquette NW, Suite 800, Albuquerque, NM 87112			
		M P Group, Inc.			8500 Menaul NE, Suite A220, Albuquerque, NM 87112			
		Ricci & Company, LLC			6200 Uptown Blvd. NE, Suite 400, Albuquerque, NM 87110			
977	Request for proposals	Franken Construction Co.	5,805,000	-	1025 Douglas Ave., Las Vegas, NM 87701	Y	N	Media Arts Trolley Barn Renovation & Addition
		Anchorbuilt, Inc.			PO Box 27688, Albuquerque, NM 87125			
		FCI Constructors of New Mexico, LLC			1427 W. Aztec Blvd., Suite C3, Aztec, NM 87410			

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
JOINT POWERS AGREEMENT
Year Ended June 30, 2015**

<u>Participants</u>	<u>Responsible operating party</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Award</u>	<u>Portion \$ Applicable to New Mexico Highlands University</u>
New Mexico Energy, Minerals, and Nat. Res. Dept.	NMHU	09/05/08	ongoing	\$ 167,207	\$ 167,207
City of Las Vegas Police Department	NMHU	06/28/13	ongoing	\$ -	\$ -

Memorandums of Understanding

Department of Cultural Affairs	NMHU	10/11/13	06/30/15	\$ 50,000	\$ 50,000
Department of Cultural Affairs	NMHU	07/01/13	06/30/15	\$ 50,000	\$ 50,000
Department of Cultural Affairs	NMHU	09/12/14	06/30/15	\$ 50,000	\$ 50,000
NM Forum for Youth in Community & ENLACE-NER	NMHU	03/11/13	06/30/15	\$ 15,000	\$ 15,000
Santa Fe Institute	NMHU			\$ 6,980	\$ 6,980
SITE Santa Fe	NMHU	-	-	\$ 3,000	\$ 3,000
TRIBES	NMHU	02/19/09	06/30/16	\$ 295,042	\$ 295,042
New Mexico Junior College	NMHU	05/14/13	05/10/15	\$ 8,000	\$ 8,000
San Juan College	NMHU	02/07/00	ongoing	\$ -	\$ -
Santa Fe Community College	NMHU	08/24/08	ongoing	\$ -	\$ -

<u>Amount</u> <u>Contributed</u> <u>(FY15)</u>	<u>Audit</u> <u>Responsibility</u>	<u>Fiscal Agent</u>	<u>Purpose</u>
\$ 6,697.00	NMHU	Carmen Austin	Improving the ecological integrity and long term resiliency of NM's forests and watersheds through implementing the recommendations contained in the Plan.
\$ -	NMHU	Cassandra Fresquez	New Mexico Highlands University Police Department and the City of Las Vegas Police Department are charged with the duty of enforcing the laws to protect their citizens from illegal activity. New Mexico Highlands University, New Mexico Highlands University PD, the City, and the LVPD recognize that jurisdiction and authority are limited to their respective jurisdictions and such limitations are detrimental in combating crime in the City of Las Vegas and on the Campus of New Mexico Highlands University. The parties recognized that this problem can and must effectively be addressed by pooling resources and the joint exercise of their authorities. Therefore, they established a JPA agreement for the prevention, investigation, control and prosecution of illegal activity and Police Training with the jurisdictions of the parties.
\$ 2,427.00	NMHU	Doug Patinka	To support Internship Program expenses.
\$ 36,934.00	NMHU	Doug Patinka	Provide administrative support and oversight to MISP/MUSE, including developing opportunities for class projects and internships for the Participants in New Mexico's museums, libraries, and other cultural institutions and other professional settings. Assist NMHU in the preparation and enforcement of professional service contracts ("PSCs"), which DCA shall also be a party to, to carry out the MISP/Muse program. Ensure that all the Participants' internships and class projects provide support, research, other benefit to DCA's facilities or other benefit to DCA's facilities or programs and further its mission goals.
\$ 49,554.00	NMHU	Doug Patinka	To provide a means whereby DCA may transfer funds to NMHU to manage the MISP/Muse Program.
\$ 500.00	NMHU	Rosie Garibaldi	Development and implementation of a peer-to-peer youth suicide prevention program
\$ 25.00	NMHU	Juniper Lovato	The goal of the project is to create a multimedia, interactive website and a related social media strategy to engage students and teachers with the content of the Majesty of Music and Mathematics performance.
\$ 33.00	NMHU	Joanne LeFrak	Research and development of frameworks and prototypes to be used for the SITElines exhibition to include a web app, website/blog, and digital outreach projects related to SITElines artists projects. Implementation of frameworks and build out of agreed upon prototypes.
\$ 59,273.00	NMHU	Norman Coeoyate	To formalize the relationship between New Mexico Highlands University and TRIBES, with goals to promote higher education opportunities leading to the retention and successful completion of degree programs by TRIBES' students. Scholarships are tuition based on current tuition price for both undergraduates and graduates; a total of 69 scholarships are awarded per academic year (fall and spring only); total scholarships awarded were 19.
\$ 8,000.00	NMHU	Steve McCleery	NMJC to provide will provide space and services to NMHU to deliver distance education courses on the NMJC campus.
\$ -	NMHU	Carol J. Spencer	To establish a unique educational partnership. It initiates the development of integrated, seamless curricula and system of student support services. The curricula will link the completion of an associate's degree from San Juan College to the completion of a bachelor's degree from New Mexico Highlands University. Secondly, it will enable the institutions to make more efficient use of their organizational structures in providing course offerings to a greater number of students. Thirdly, this agreement will establish a process by which individual instructional units at San Juan College and New Mexico Highlands University may integrate instructional matrices.
\$ -	NMHU	Sheila Ortego	To articulate twelve hours from the New Mexico Highlands University TESOL License Program into the recently developed SFCC TESOL Endorsement Program.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
JOINT POWERS AGREEMENT
Year Ended June 30, 2015**

<u>Participants</u>	<u>Responsible operating party</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Award</u>	<u>Portion \$ Applicable to New Mexico Highlands University</u>
Las Vegas San Miguel County Office	NMHU	03/30/09	ongoing	\$ -	\$ -
Las Vegas San Miguel County Office Emergency Management	NMHU	10/28/09	ongoing	\$ -	\$ -
Region IV Narcotics Task Force	NMHU	12/15/09		\$ -	\$ -
LUNA Community College	NMHU	03/24/11	ongoing	\$ -	\$ -
New Mexico Museum of Natural History Science, and New Mexico Department of Cultural Affairs	NMHU	08/31/12	06/30/18	\$ -	\$ -
University Blaise Pascal in Clermont-Ferrand, France	NMHU	03/04/15	03/04/20	\$ -	\$ -
New Mexico State Land Office	NMHU	05/16/13	ongoing	\$ -	\$ -
The City of Las Vegas	NMHU	08/01/13	06/30/15	\$ -	\$ -
City of Las Vegas	NMHU	08/01/13	06/30/15	\$ -	\$ -
Pueblo of Nambe	NMHU	08/03/13		\$ -	\$ -
University of New Mexico-Taos Veterans Upward Bound (TRIO-VUB)	UNM-Taos	08/07/13	08/06/14	\$ -	\$ -
The Department of Defense	NMHU	3/11/2011; updated 12/06/12	03/15/21	\$ -	\$ -
New Mexico Public Education Department	NMHU	05/06/15	06/30/19	\$ -	\$ -

<u>Amount</u> <u>Contributed</u> <u>(FY15)</u>	<u>Audit</u> <u>Responsibility</u>	<u>Fiscal Agent</u>	<u>Purpose</u>
\$ -	NMHU	Dennis English	The purpose of this agreement is for the Area 2 Emergency Management Offices which include the counties of San Miguel, Colfax, Union, Mora and Harding to receive the authorization to utilize New Mexico Highlands University Educational Outreach Services designated Interactive Television training site for the purpose of communication, exercising and training.
\$ -	NMHU	Dennis English	To provide proper coordination and expeditious delivery of support and assistance to the citizens of the city of Las Vegas and San Miguel County, New Mexico during an emergency or disaster response.
\$ -	NMHU	Gary Gold	To maintain a multi-jurisdictional task force (law enforcement body) in Region IV, which will coordinate available resources to combat a problem common to their respective agencies, the illegal possession, use, manufacture, and distribution of narcotics and dangerous drugs, particularly within the jurisdiction covered by the agencies.
\$ -	NMHU	Vidal Martinez	Students completing the Associates of Applied Science Degree in Sports Performance and LUNA can apply those credits and courses toward a Bachelors of Art in Human Performance and Sport with a concentration in Exercise Science or Bachelors of Art in Health with a concentration in Health Promotion and Wellness at New Mexico Highlands University.
\$ -	NMHU	Veronica Gonzales, Charles Walter	To establish and administer the "Museum Classroom" and "Start Up Studio".
\$ -	NMHU	Benjamin van Wyk de Vries	To foster international collaboration in education and research, which is designed to facilitate and develop a genuine and mutually beneficial student-faculty exchange process and research relationship. The aim is to offer students the benefit of a widened curricula and the opportunity to broaden their cultural and linguistic experience. The exchange is principally built around the exchange of students undertaking master's research projects.
\$ -	NMHU	Ray Powell	To define, formalize, and maintain an ongoing, cooperative relationship related to the collection of biological information and the management of natural resources to promote sustainability, responsible trust stewardship, and to increase academic opportunities, including research and teaching, in a manner mutually beneficial to the parties.
\$ -	NMHU	Timothy P. Dodge	NMHU will provide live transmission of Las Vegas City Council monthly meetings to Las Vegas citizens through Comcast and streaming video starting at 5:45 p.m. to 9:00 p.m.; which are within NMHU EOS' business hours.
\$ -	NMHU	Timothy P. Dodge	New Mexico Highlands University Educational Outreach Services will assist the City of Las Vegas to televise City Council Meetings to the Las Vegas area.
\$ -	NMHU	Phillip A. Perez	To address retention of Native American Students enrolled at New Mexico Highlands University.
\$ -	UNM-Taos	Katherine O'Neill	NMHU and TRIO-VUB are committed to establishing a partnership to expand access and services to Veteran students interested in attending NMHU. TRIO-VUB will provide a staff member to work one-and-one with veteran students interested in attending NMHU. NMHU will provide the office space for TRIO-VUB staff member, share student information as permitted by FERPA, as well as, assist, communicate and promote TRIO-VUB.
\$ -	NMHU	Clifford L.Stanley	To establish new policy stating the eligibility criteria for tuition assistance (TA) and the requirement for a MOU from all educational institutions providing educational programs through the DoD TA Program, as well as, establish the Interservice Voluntary Education Board.
\$ -	NMHU		To share personally identifiable information of individual TEACHERS (such as teacher and student demographic and performance data).

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Grantor/Program Title	CFDA #	Award/Sub Award #	Expenditures
Research and Development Cluster			
National Science Foundation			
Mathematical and Physical Sciences	47.049	DMR-0934212	252,813
Geosciences	47.050	EAR-1023278	28,086
Geosciences	47.050	EAR-1321763	23,469
Geosciences	47.050	EAR-1337254	187,340
Geosciences	47.050	EAR-1337123	28,389
Office of International Science and Engineering	47.079	IIA-1423396	25,702
Passed through University of New Mexico			
Office of International Science and Engineering	47.079		4,000
Office of Cyberinfrastructure	47.080	063026-8744	40,971
Office of Cyberinfrastructure	47.080	063037-8744	24,819
Total National Science Foundation			<u>615,589</u>
Department of Health and Human Services-National Institutes of Health			
Passed through New Mexico State University			
Biomedical Research and Research Training	93.859	Q01677	265,186
Total Department of Health and Human Services-National Institutes of Health			
Department of Defense US Army Materiel Command			
Basic Scientific Research	12.431	W911NF-15-1-0009	33,381
Total Department of Defense US Army Materiel Command			
Total Research and Development Cluster			<u>914,156</u>
US Department of Education			
Student Financial Aid Cluster			
Federal PELL Grant Program - Office of Federal Student Aid	84.063	P063P140275	5,373,491
Federal Supplemental Educational Opportunity Grants - Office of Federal Student Aid	84.007	P007A142646	175,885
TEACH Grant Programs - Office of Federal Student Aid	84.379	P379T150275	62,513
Federal Work-Study Program - Office of Federal Student Aid	84.033	P033A142646	357,737
Federal Direct Student Loans - Office of Federal Student Aid	84.268	P268K150275	11,852,593
Total Student Financial Aid Cluster - US Department of Education			<u>17,822,219</u>
TRIO Programs Cluster			
Student Support Services - Office of Postsecondary Education	84.042A	P042A100293	517,168
Total TRIO Programs Cluster - US Department of Education			
US Department of Education			
Higher Education_Institutional Aid - Office of Postsecondary Education	84.031C	P031C110033	218,750
Passed through University of New Mexico-Taos			
Higher Education_Institutional Aid - Office of Postsecondary Education	84.031S	P031S140070	30,365
Perkins Loan	84.038		214,094
Rehabilitation Long-Term Training - Office of Special Education and Rehabilitative Services	84.129B	H129B090069	45,638
Rehabilitation Long-Term Training - Office of Special Education and Rehabilitative Services	84.129F	H129F080009	377
GEAR UP Program - Office of Postsecondary Education	84.334A	P334A070059	54,070
English Language Acquisition State Grants - Office of Elementary and Secondary Education	84.365Z	T365Z120020	348,678
Passed Through State of New Mexico Department of Higher Education			
College Access Challenge Grant Program - Office of Postsecondary Education	84.378A	15-950-2700-00002	83,886
Total US Department of Education			<u>19,335,245</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Grantor/Program Title	CFDA #	Award/Sub Award #	Expenditures
United States Department of Agriculture			
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2010-38422-21639	2,188
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2012-38422-19865	55,631
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22463	60,337
Passed Through New Mexico State University		2011-38422-30947	
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	Q01512/SUB	120,115
Passed through University of New Mexico-Taos			
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22086	19,000
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	10-DG-11031600-051	179,193
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	10-DG-11031600-084	5,328
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	14-DG-11031600-047	69,807
Total United States Department of Agriculture			<u>511,599</u>
United States Department of Interior			
National Cooperative Geologic Mapping Program - U.S. Geological Survey	15.810	G13AC00109	5,004
Bureau of Land Management			
Forest and Woodlands Resource Management - Bureau of Land Management	15.233	L11AC20181	41,938
Total US Department of Interior			<u>46,942</u>
Department of Justice Violence Against Women Office			
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2014-WA-AX-0003	40,508
Total Department of Justice Violence Against Women Office			<u>40,508</u>
United States Department of Energy			
Environmental Remediation and Waste Processing and Disposal	81.104	DE-EM0001367	52,905
Total US Department of Energy			<u>52,905</u>
Department of Health and Human Services			
Passed Through New Mexico Childrens Youth and Families Department			
Foster Care Title IV-E - Administration for Children and Families	93.658	15-17849	1,734,850
Passed Through the University of Texas			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance -			
Substance Abuse and Mental Health Services Administration	93.243	UTA12-001073	11,639
Total US Department of Health and Human Services			<u>1,746,489</u>
Corporation for National and Community Service			
Passed Through NM Department of Children Youth and Families			
AmeriCorps Recovery	94.006	14-631-8001-00037 A1	-
AmeriCorps Recovery	94.006	15-631-8001-00017	76,792
Total Corporation for National and Community Service			<u>76,792</u>
National Science Foundation			
Education and Human Resources	47.076	DUE-1154471	115,940
Total National Science Foundation			<u>115,940</u>
Total Federal Awards Expended			<u>\$ 22,840,576</u>

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
June 30, 2015**

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards includes all federal assistance to the University that had activity during FY 2015 or accrued revenue at June 30, 2015. This schedule has been prepared on the accrual basis of accounting. Revenues are recorded for financial reporting purposes when the University has met the qualifications for the respective program.

NOTE 3. CONTINGENCIES

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

NOTE 4. STUDENT FINANCIAL ASSISTANCE

The University administers the Perkins Loan Program. Total outstanding loans under this US Department of Education program at June 30, 2015, were \$658,953. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2015, were \$214,094. The Schedule of Expenditures of Federal Awards only includes an amount, which represents administrative costs and additional advances for the year ended June 30, 2015.

During the fiscal year ended June 30, 2015, the University processed \$11,834,372 of new loans under the Federal Direct Loans, CFDA 84.268.

NOTE 5. OTHER DISCLOSURES

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

NOTE 6. AMOUNTS PAID TO SUBRECIPIENTS

Amounts paid by the university to subrecipients of federal grants for the year ended June 30, 2015, are as follows:

<u>CDFA#</u>	<u>Program name</u>	<u>Federal Agency</u>	<u>Amount</u>
47.049	Mathematical and Physical Sciences	National Science Foundation	\$ 30,649



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ALBUQUERQUE, NM 87125

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each discretely presented component unit and the fiduciary fund, and related notes, which collectively comprise the basic financial statements of New Mexico Highlands University (the University), as of and for the year ended June 30, 2015. We have also audited the budgetary comparison schedules presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2015 and the related notes to the financial statements and have issued our report thereon dated November 16, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-003 to be a material weaknesses.

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

Compliance and Other Matters

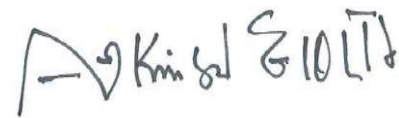
As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-010 and 2015-010.

The University's Response to Findings

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Atkinson & Co., Ltd." with a stylized initial "A" and a checkmark-like flourish.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 16, 2015



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited New Mexico Highlands University (the University) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2015. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and responses.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audits of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-010. Our opinion on each major federal program is not modified with respect to this matter.

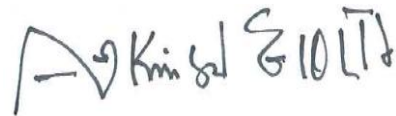
Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

The purpose of this report on internal control compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial "A" on the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 16, 2015

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster
84.042	TRIO Cluster - Student Support Services
93.658	Foster Care Title IV-E

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? Yes X No

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SUMMARY OF AUDIT FINDINGS
Year Ended June 30, 2015**

PRIOR YEAR FINDINGS

Status

Findings – Financial Statement Audit

2003-017	Budget Overspending (Significant Deficiency)	Resolved
2013-001	Due From Component Unit – Deficit Net Position (Control Deficiency)	Repeated and Modified
2014-001	Code of Conduct (Control Deficiency)	Resolved
2014-002	Procurement (Control Deficiency)	Resolved
2014-003	Fuel Cards (Control Deficiency)	Resolved
2014-004	Disposition of Fixed Assets (Significant Deficiency)	Resolved
2014-005	Duplicate Fixed Assets (Significant Deficiency)	Resolved
2014-006	Disposal of Fixed Assets (Significant Deficiency)	Resolved
2014-007	Component Unit (NM Highlands Foundation) Financial Close and Reporting (Significant Deficiency)	Resolved

Findings – Federal Award Findings and Questioned Costs

2014-008	Student Financial Aid – Enrollment Reporting (Significant Deficiency/Noncompliance)	Resolved
2014-009	Student Financial Aid – Matching (Significant Deficiency/ Noncompliance)	Resolved
2014-010	Suspension and Debarment (Significant Deficiency/ Noncompliance)	Repeated and Modified
2014-011	Required Communication of Information (Significant Deficiency/Noncompliance)	Resolved
2014-012	Physical Location of Equipment Acquired Under Federal Awards (Significant Deficiency/Noncompliance)	Resolved

CURRENT YEAR FINDINGS

Findings – Financial Statement Audit

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

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SUMMARY OF AUDIT FINDINGS
Year Ended June 30, 2015**

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2015-010 Insufficient Collateral (Other Noncompliance)

Findings – Federal Award Findings and Questioned Costs

2014-010 Suspension and Debarment (Significant Deficiency/Other noncompliance)

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS

2013-001 DUE FROM COMPONENT UNIT – DEFICIT NET POSITION (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY)

CONDITION

The University's component unit, Highlands Stable Isotopes Corporation (HSI) continues to incur expenses with limited offsetting revenues which has resulted in a deficit net position of approximately \$1.5 million at June 30, 2015. HSI's liability to the University has increased each year since HSI's inception with an increase of about \$300,000 for the year ended June 30, 2015. Additionally, the memorandum of understanding between the two entities which authorized the University's support of HSI at inception is out of date and contains expired provisions. The University has reduced research projects with little current commercial potential.

CRITERIA

Per section 5.3.4.10 NMAC, total expenditures may not exceed amounts shown in the approved budget. Adequate internal controls to minimize budget overspending should ensure that budgets are not exceeded by any amount. When HSI was created, it was intended that HSI would become self-sufficient.

CAUSE

Insufficient revenue to cover expenditures and inaction from both entities' governing bodies.

EFFECT

Should HSI never generate sufficient income to cover expenditures or repay the amount due to the University, the University will have to absorb the cumulative losses of HSI of approximately \$1.5 million.

RECOMMENDATION

We understand that the University has taken action to reduce the costs incurred by HSI and is hopeful that new revenue streams will allow HSI to repay the receivable. We recommend that the University closely monitor HSI's activity and be prepared to take action to write-off the balance.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

Management Response

The University acknowledges that there is a deficit net position with HSI; however, there have been significant developments in HSI that are noteworthy and offer future promise for the University. The Office of Finance and Administration will be working with HSI's governing board to continue moving forward with the objective of eliminating this deficit and eliminating of unnecessary expenditures until the entity is profitable. We hope to resolve this finding by May 2016,

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS

**2014-010 SUSPENSION AND DEBARMENT (SIGNIFICANT
DEFICIENCY/OTHER NONCOMPLIANCE)**

**Funding Agency: Various
Program: R&D Cluster
CFDA No.: Various
Period 7/1/2014 – 6/30/2015**

**Funding Agency: U.S. Department of Health and Human Services
Program: Foster Care Title IV-E - Administration for Children and Families
CFDA No.: 93.658
Period 7/1/2014 – 6/30/2015**

CONDITION

We noted 2 of 40 vendors (1 R&D, 1 Foster Care) and 1 subrecipient tested (R&D) for which there was no documentation maintained or documentation was not timely to show that the University performed verification check on the federal list of excluded parties to ensure vendors were not suspended or debarred. Per the University, training in the attribute occurred during FY 2015.

CRITERIA

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

CAUSE

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

EFFECT

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

QUESTIONED COSTS

None.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS

**2014-010 SUSPENSION AND DEBARMENT (SIGNIFICANT
DEFICIENCY/OTHER NONCOMPLIANCE) (CONTINUED)**

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with this finding and are concerned about the repeat finding. The University had modified its process; however, we had one record that lacked the timeliness of the process. The University will put in place a much more rigorous process to ensure we are in compliance. The Restricted Funds Manager and Purchasing Director will ensure that quarterly or semi-annually review of these type of contracts will be completed. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Michael Saavedra - Purchasing Director

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS

2015-001 INSUFFICIENT COLLATERAL (OTHER NONCOMPLIANCE)

CONDITION

Bank account deposits for the University, as public funds, are required to be collateralized to a level required by state statute. The main checking account for the University was under collateralized in comparison to the required level of 102% at June 30, 2015.

CRITERIA

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

CAUSE

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

EFFECT

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

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with this finding and will work with the banks to obtain the required collateral. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS

2015-002 UNIVERSITY POLICIES NOT APPROVED (SIGNIFICANT DEFICIENCY)

CONDITION

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

CRITERIA

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

EFFECT

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

CAUSE

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

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with this finding and the University will review all policies to ensure that they have been properly revised and authorized. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2015-003 DEVELOPMENT AND TESTING OF A DISASTER RECOVERY PLAN
(SIGNIFICANT DEFICIENCY)**

CONDITION

The University has no formal disaster recovery plan in place. Without a disaster recovery plan to provide guidance, the University may be unable to effectively manage the recovery effort. A written disaster recovery plan should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations.

CRITERIA

Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-00.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing federal and state statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.

CAUSE

The University is still working on updating its disaster recovery plan.

EFFECT

The lack of updated disaster recovery plan and absence of testing may pose questions as to the University’s ability to respond and recover its critical data and applications in the event of an unforeseen disaster or cyber attack.

RECOMMENDATION

We recommend that the University develop a formal disaster recovery plan. It would be prudent for the University to test the Plan to ensure the viability of the plan and the timeliness of its execution. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with the University’s overall business continuity planning.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with this finding and will ensure that the disaster recovery plan will be reviewed, updated, and tested. The University is in complete support of having an accurate business continuity plan in place including all necessary service level agreements and review of all other third party agreements. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-004 CAPITAL ASSET ACCOUNTING (MATERIAL WEAKNESS)

CONDITION

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

- The University changed the useful lives for buildings from 25 years to 50 year starting in FY13. Atkinson noted that the current year calculation of annual depreciation and accumulated depreciation for those assets was inaccurate.
- Useful lives for capital improvements was changed from 15 years to 25 years starting in FY 14. Atkinson noted that this change in useful life was not approved by the board. Previous year Minutes to be provided.
- Atkinson noted errors in accumulated depreciation related to library books, as depreciation had been calculated on net additions in prior years, rather than the gross cost of additions.
- Atkinson noted several errors in accumulated depreciation calculations in the furniture, fixtures, and equipment spreadsheets maintained by the University.
- Atkinson noted that the capital asset spreadsheet had several errors in the summing of the gross cost of assets related to equipment and furniture. These errors resulted in a prior period adjustment that increased the cost of equipment and furniture by \$1,572,036.
- The University maintains a spreadsheet in which they track construction in progress (CIP). However, none of the expenses were capitalized in the current or prior year. The University determined that \$608,460 of expenses should have been capitalized, so a current year adjustment was made to record the CIP.
- The University is not properly updating their fixed asset listing, as there were several assets listed on the disposal memo submitted to the State Auditor that remained on the books. Gross equipment appears to be overstated by approximately \$500,000. However, the net effect on the financial statements is \$0, as the assets all appear to be fully depreciated, so no adjustment is considered necessary.
- The University uses an average unit price for library asset disposals and during FY 15 the unit price used was different from the amount calculated by the library director. The difference is not material, thus no adjustment will be made. However, this error indicates that a more detailed level of review needs to be performed.
- A building owned by the University in Raton, NM was donated to the City of Raton during the year; however, this building was never recorded in the financial statements of the University and the net loss on transfer is unknown.

CRITERIA

Amounts recorded in the financial statements should agree to subsidiary ledgers and such ledgers should be complete and accurate. Asset useful life is an estimate made by management that should be part of the University's policies approved by the Board of Regents.

CAUSE

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

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-004 CAPITAL ASSET ACCOUNTING (MATERIAL WEAKNESS) (CONTINUED)

EFFECT

Beginning capital assets and net assets invested in capital assets was understated by about \$4.6 million (\$1.6 million asset cost and \$3 million of accumulated depreciation) resulting in a prior period adjustment. These errors also resulted in an increase in current year depreciation expense of \$524,439.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with the finding related to the calculation of accumulated depreciation for library books. The University will calculate accumulated depreciation using the gross cost of additions rather than the net amount of library books.

The University concurs with the findings related to the calculations for furniture, fixtures, and equipment. The University will incorporate the corrections made by Atkinson for calculating accumulated depreciation.

The University concurs with the finding related to mathematical errors in the gross cost of assets related to equipment and furniture. These errors have been corrected and the University will maintain formula accuracy of the spreadsheets moving forward.

The University concurs with the finding related to the tracking of construction in progress (CIP). The University will do a more thorough review of expenses by including business office accounting to the now facility management review to determine whether expenditures should be capitalized.

The Central Receiving Department may not have received all of the deletion forms submitted to the Purchasing Department. Prior to providing the State Auditor with the list of items for disposal the Purchasing Department will verify the removal of the items with the Central Receiving Department.

The University concurs with the finding related to the average unit price being different than that calculated by the library director. The University will do a more thorough review of the asset disposal calculation by including business office accounting to the now library director review to ensure a more detailed level of review is performed.

The University concurs with the finding related to a University owned building never being recorded in the financial statements. The University's Business Office will work more closely with the Central Receiving Office to ensure that all capital assets are being recorded in an accurate and timely manner. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2015-005 VENDOR INFORMATION (OTHER NONCOMPLIANCE)

CONDITION

During our testing of controls over cash disbursements, we noted that 2 of 9 vendors tested did not have a W-9 form on file at the University.

CRITERIA

Strong internal controls include procedures to ensure that purchases are made from legitimate vendors.

CAUSE

Unknown.

EFFECT

Purchases may be made from unauthorized vendors.

RECOMMENDATION

We recommend that management review the established vendor setup process to ensure that controls are properly implemented.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The University concurs with the findings related to each vendor having a W-9 on file. The University will review its policies and procedures and will establish an appropriate modification to procedures to certify we have all the necessary controls in place for W-9. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Michael Saavedra - Purchasing Director

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SUMMARY OF AUDIT FINDINGS – COMPONENT UNITS
Year ended June 30, 2015**

Prior Year Findings Description

New Mexico Highlands University Foundation, Inc.

2014-001 Financial Close

Resolved

Highlands Stable Isotopes, Inc.

None

Current Year Findings Description

New Mexico Highlands University Foundation, Inc.

2015-006 Investment Policy Statement (Other Noncompliance)

2015-007 Foundation Budget (Other Noncompliance)

2015-008 Bylaws (Findings that Do Not Rise to the Level of a Significant Deficiency)

Highlands Stable Isotopes, Inc.

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

2015-010 Timing Of Annual Audit (Other Noncompliance)

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES – COMPONENT UNITS
Year ended June 30, 2015**

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.

2015-006 INVESTMENT POLICY STATEMENT (OTHER NONCOMPLIANCE)

CONDITION

We reviewed the investment policy statement of the Foundation adopted in 2009, and noted the following conditions:

1. The policy incorporates through discussion the Uniform Management of Institutional Funds Act (UMIFA) as a required practice for Directors to follow in investment management. The Act provided the previous prudence guidance for Directors and set standards for spending of endowments. A new act, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) has superseded the UMIFA and has been adopted by almost all states including New Mexico in July 2009. This act updated prudence standards and requires Trustees to determine how amounts of permanent gifts must be maintained in perpetuity. The investment policy statement has not been updated for UPMIFA requirements.
2. The investment policy calls for an annual meeting between the investment advisor and the Investment Committee for the purpose of updating the investment policy statement. Although we obtained documentation that meetings between the investment committee and investment advisor have been occurring at least annually, it did not appear that the investment policy statement was being updated as required in the investment policy statement. The investment policy statement has not changed since 2009.

CRITERIA

The investment policy statement is the controlling document for the investment function of the Foundation. It provides fiduciary information to directors and places full powers in the Investment Committee of the Foundation to manage investments. It specifies that the investment policy statement should be updated at least annually. It notes the purpose of an investment policy statement is in part “to provide a well thought-out framework from which sound investment decisions can be made”.

EFFECT

The lack of an updated document that incorporates current developments in investment prudence and requirements for maintaining permanent gifts for the Foundation increases the possibility that fiduciary responsibilities may not be met in every instance. The lack of changes to the investment policy statement to reflect changes in investment management policy or investment profiles may increase the possibility that investment results will not be optimized in accordance with the Board objectives.

CAUSE

Although meetings between the investment advisor and the investment committee are occurring as required in the investment policy statement, the documentation of the meetings and updates to the overall guiding document are not being made as required.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES – COMPONENT UNITS (CONTINUED)
Year ended June 30, 2015**

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC. (CONTINUED)

**2015-006 INVESTMENT POLICY STATEMENT (OTHER NONCOMPLIANCE)
(CONTINUED)**

RECOMMENDATION

We recommend that the investment policy statement be reviewed and adjusted to document the current investment environment and investment policies as determined between the investment advisor and investment committee. The updated document should then be approved by the full Board of Directors. We recommend this process be documented in the minutes of the Foundation or by another appropriate method.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The NMHU Foundation agrees that its Investment Policy Statement requires review and renewal. The Investment/Finance Committee has in progress, a review of the performance of its financial advisor/manager (Morgan Stanley). An integral component of this process is an assessment of the current investment policy. The intent of the committee is to complete its review, develop and adopt a new Investment Policy Statement and make appropriate changes in the advisor/manager status if indicated. We expect these changes to be accomplished with the 2015-16 fiscal year.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

2015-007 FOUNDATION BUDGET (OTHER NONCOMPLIANCE)

CONDITION

The Foundation is not currently preparing an annual budget by projecting revenues that it will receive and expenses it is responsible for in the coming year and submitting them to the Board for approval. Such approved budgets serves as authorization for budgeted expenses during the year.

CRITERIA

The Bylaws of the Foundation as Amended 2008 indicate that an annual budget shall be created and shall be submitted to the Board for approval each year. The approved budget serves as authorization for the Executive Director to expend budget amounts.

EFFECT

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

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES – COMPONENT UNITS (CONTINUED)
Year ended June 30, 2015**

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC. (CONTINUED)

2015-007 FOUNDATION BUDGET (OTHER NONCOMPLIANCE) (CONTINUED)

CAUSE

The revenue and expenses that the Foundation is responsible for are not complex. The New Mexico Highlands University is responsible for operating items including administrative staff assigned to the Foundation and other needed administrative expenses. Investment returns do not readily lend themselves to a budget process except for investment expenses and dividends and interest. Due to changes in management personnel, the Foundation has operated with different individuals in most recent years.

RECOMMENDATION

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The NMHU Foundation acknowledges that an annual budget preparation and approval process as described in the bylaws has not taken place. The Foundation accepts that for this reason and because of potential ambiguities as noted in finding 2015-003, a full review and possible bylaw revision must occur. The process will be placed before the appropriate Foundation committee at its November 14, 2015, meeting. To assist this process, the Foundation Board will also carefully assess the role of an annual budget process in Foundation business. If deemed appropriate, a budget process will be established and included in revised bylaws. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

**2015-008 BYLAWS (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A
SIGNIFICANT DEFICIENCY)**

CONDITION

We identified two actions binding the Foundation that were approved in the Finance Committee or the Executive Committee, respectively. After discussion with management, we were satisfied that these actions were also approved in accordance with the Bylaws. We note that what is required by the Bylaws as currently written may be initially interpreted differently by outside parties to the Board or new Board members.

CRITERIA

The Bylaws of the Foundation as Amended 2008 indicate the operating rules of the Foundation as a New Mexico Non Profit Corporation and specify the approvals needed for transactions by working committees and by the full Board.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES – COMPONENT UNITS (CONTINUED)
Year ended June 30, 2015**

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC. (CONTINUED)

**2015-008 BYLAWS (FINDINGS THAT DO NOT RISE TO THE LEVEL OF A
SIGNIFICANT DEFICIENCY) (CONTINUED)**

EFFECT

Transactions may be entered into that could be questioned later by the Board members. Situations where the oversight of the full Board is needed may not be clear.

CAUSE

There are provisions of the Bylaws that are not initially clear as to their operation. The Bylaws have not been amended since 2008.

RECOMMENDATION

We recommend that consideration be given to amending the Bylaws in conjunction with finding 2015-002 which provides for a possible revision of the Bylaws.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

The NMHU Foundation acknowledges that some provisions of the bylaws that relate to processes of making binding financial commitments can be more clearly stated. As an integral part of the planned bylaw review and revision (see 2015-002 Corrective Action Plan), any ambiguities in the bylaw language will be corrected. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES – COMPONENT UNITS (CONTINUED)
Year ended June 30, 2015**

HIGHLANDS STABLE ISOTOPES CORPORATION

FINANCIAL STATEMENT FINDINGS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

2015-009 INCOME TAXES AND TAX STATUS (MATERIAL WEAKNESS)

CONDITION

As a result of audit procedures, we determined that the following items, in combination, constitute a material weakness in internal control:

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

CRITERIA

Because HSI has not filed an application with the IRS for exemption under section 501(c)(3) of the IRC, HSI is considered a taxable corporation and should therefore record a provision for income taxes and deferred income taxes and provide related disclosures in accordance with GAAP. Additionally, HSI is required to file federal and NM state corporate income tax returns even if no taxable income exists.

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

EFFECT

Beginning assets and net position were potentially understated by approximately \$348,400 and financial statement disclosures were not adequate. HSI is not in compliance with federal and state law and may be subject to penalties and interest from the state of NM.

CAUSE

Lack of oversight over the financial reporting process and inadequate corporate governance.

RECOMMENDATION

We recommend that management and the Board file all required tax returns as soon as possible, file the application for exempt status as soon as possible, and ensure that tax matters are taken into consideration during the financial reporting process.

**NEW MEXICO HIGHLANDS UNIVERSITY
STATE OF NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES – COMPONENT UNITS (CONTINUED)
Year ended June 30, 2015**

HIGHLANDS STABLE ISOTOPES CORPORATION

FINANCIAL STATEMENT FINDINGS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

2015-009 INCOME TAXES AND TAX STATUS (MATERIAL WEAKNESS) (CONTINUED)

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The University concurs with this audit finding. The University will file all required tax returns as soon as possible, file the application for exempt status and will establish a procedure to ensure that all appropriate tax matters are submitted timely. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

2015-010 TIMING OF ANNUAL AUDIT (OTHER NONCOMPLIANCE)

CONDITION

The annual audit was not completed and submitted to the Secretary of State within 90 days of the end of the fiscal year as required by state law.

CRITERIA

Per section 21-28-17 NMSA 1978, a research park corporation shall submit an annual report, audited by an independent certified public accountant, of its activities for the preceding year within 90 days of the end of each fiscal year and also submit such report to the Secretary of State.

EFFECT

HSI is not in compliance with state law.

CAUSE

HSI was not aware of the statutory filing deadlines for research park corporations.

RECOMMENDATION

We recommend that management ensure that the records are ready to audit and schedule the audit to ensure timely completion of the audit.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The University concurs with this audit finding. The University will establish a procedure to ensure a timely submittal of the annual audit to the Secretary of State per state law. We expect to resolve this finding by May 2016.

POINT OF CONTACT

Max Baca - Interim VP for Finance and Administration

New Mexico Highlands University

EXIT CONFERENCE

June 30, 2015

An exit conference was held on November 12, 2015, with the following in attendance:

For the New Mexico Highlands University:

Dr. Sam Minner	President, Highlands University
Max Baca	Interim Vice President for Finance and Administration
Frank Marchi	Member, Board of Regents Highlands University
Jesus Baquera	Controller
Dominic Chavez	Business Office
Eleanor Duran	Business Office
Michael Saavedra	Director, Purchasing
Eilleen Sedillo	Financial Aid
Patrick Alarid	Director, Budget
Donna Castro	Human Resources, Payroll
Phillip Escue	IT Services

For Atkinson & Co., Ltd.:

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

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