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NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC. (A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

C O N T E N T S

New Mexico Highlands University Foundation, Inc.
(A Component Unit of New Mexico Highlands University)

OFFICIAL ROSTER

June 30, 2016

Board of Directors

Mr. William E. Garcia	President/Public Director
Dr. Sam Minner	Chairman of the Board/Ex-Officio
Ms. Tina M. Cordova	First Vice President/Public Director
Mr. Jay D. Moore	Second Vice President/Public Director
Mr. Ray Litherland	Treasurer/Public Director
Dr. G. Doyle Daves, Jr.	Public Director
Mr. Jim Franken	Public Director
Mrs. Linda Mitchell Davis	Public Director
Mr. Albert Girard	Public Director
Mr. John Lesselyong	Public Director
Dr. Carlotta E. Lockmiller	Public Director
Mr. Antonio Lopez	Public Director
Dr. Eileen Madrid	Public Director
Mr. Mike Melton	Public Director
Mr. Rick Miera	Public Director
Dr. Dewayne Matthews	Public Director
Mr. Joseph Montoya	Public Director
Dr. Barbara A. Perea Casey	Public Director
Dr. D. Pauline Rindone	Public Director
Ms. Ivy M. Romero	Public Director, President Alumni Assoc.
Ms. Juli Salman	Public Director
Mr. Joe H. Staley, Jr.	Public Director
Mr. Leveo V. Sanchez	Chair Board of Regents, Ex-officio President
Ms. Editha Bartley	Emeritus Director
Ms. Lenore Lopez-Bockbraider	Emeritus Director
Dr. Sharon Caballero	Emeritus Director
Mr. Carlos Lucero	Emeritus Director
Dr. Joseph McCaffrey	Emeritus Director
Mr. Frank A. Marchi	Emeritus Director
Mr. Ernie Quintana	Emeritus Director
Mr. Matias Zamora	Emeritus Director

Administrative Personnel

Ms. Theresa Law	Executive Director
Vacant	Alumni Director
Ms. Louise CdeBaca	Development Finance Officer

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
New Mexico Highlands University Foundation, Inc.
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 of New Mexico Highlands University Foundation, Inc. (the "Foundation") (a component unit of New Mexico Highlands University) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements 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 responsibility 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.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Foundation as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

For the year ended June 30, 2016, Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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 14, 2016, on our consideration of the Foundation'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 Foundation's internal control over financial reporting and compliance.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2016

New Mexico Highlands University Foundation, Inc.
(A Component Unit of New Mexico Highlands University)

STATEMENT OF NET POSITION

June 30, 2016

ASSETS	
Current assets:	
Cash and cash equivalents	$ 292,174
Pledges receivable	20,000
Prepaid assets	3,103
Total current assets	315,277
Noncurrent assets:	
Investments, including assets held for others of $1,711,384	7,006,789
Capital assets, net	6,841,721
Life insurance contract	80,234
Pledges receivable	65,000
Total noncurrent assets	13,993,744
Total assets	$ 14,309,021
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable and accrued liabilities	$ 5,901
Accrued interest payable	1,097
Note payable	942,370
Total current liabilities	949,368
Long-term liabilities:	
Assets held for others	1,711,384
Total long-term liabilities	1,711,384
Total liabilities	2,660,752
NET POSITION	
Net investment in capital assets	5,899,351
Restricted, non-expendable	4,937,422
Restricted, expendable	1,046,613
Unrestricted	(235,117)
Total net position	11,648,269
Total liabilities and net position	$ 14,309,021

The accompanying notes are an integral part of this financial statement.

New Mexico Highlands University Foundation, Inc.
(A Component Unit of New Mexico Highlands University)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2016

OPERATING REVENUES	
Lease income	$ 418,980
Contributions from donors	394,234
Contributed facilities and services	174,117
In-kind contributions	284,256
Total operating revenues	1,271,587
OPERATING EXPENSES	
University support	260,287
Operating expenses	297,540
Student aid grants and stipends	268,811
Contributed facilities and services	174,117
Depreciation	57,698
Total operating expenses	1,058,453
Operating income	213,134
NONOPERATING ACTIVITIES	
Loss on loan guarantee	(199,399)
Investment income (loss), net	(27,354)
Net non-operating activities	(226,753)
Loss before additions to permanent endowments	(13,619)
Additions to permanent endowments	840,199
CHANGE IN NET POSITION	826,580
Net position, beginning of year	10,821,689
Net position, end of year	$ 11,648,269

The accompanying notes are an integral part of this financial statement.

New Mexico Highlands University Foundation, Inc.
(A Component Unit of New Mexico Highlands University)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from donors	$ 385,640
Cash received from leasing activities	418,980
Cash paid to beneficiaries and vendors	(841,161)
Net cash used by operating activities	(36,541)
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Purchases of investments	(601,426)
Net cash used by investing activities	(601,426)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from donors for permanent endowments	840,199
Net cash provided by noncapital financing activities	840,199
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from note payable	22,718
Principal payments on note payable	(166,556)
Net cash used by capital and related financing activities	(143,838)
NET INCREASE IN CASH AND CASH EQUIVALENTS	58,394
Cash and cash equivalents, beginning of year	233,780
Cash and cash equivalents, end of year	$ 292,174

The accompanying notes are an integral part of this financial statement.

STATEMENT OF CASH FLOWS – CONTINUED

Year Ended June 30, 2016

Reconciliation of operating income to net cash used in operating activities:		
Operating loss	$	213,134
Adjustments to reconcile operating income and net cash used in operating activities		
Depreciation expense		57,698
Investment fees		39,286
Donated artwork		(252,850)
Changes in assets and liabilities		
Pledges receivable		(40,000)
Accounts payable		(1,035)
Accrued interest		(168)
Assets held for others		(52,606)
Net cash used in operating activities	$	(36,541)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash contributions	$	252,850
Unrealized loss on investments	$	(194,314)
Interest paid	$	44,409

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

New Mexico Highlands University Foundation, Inc. (Foundation) is formed to encourage, solicit, receive, and administer gifts and bequests of real and personal property and funds for scientific, educational, public service, and charitable purposes for the advancement and benefit of New Mexico Highlands University and its objectives and, to that end (a) to take and to hold, either absolutely or in trust for any limitations and conditions imposed by law or the instrument under which received; (b) to sell, lease, convey, and dispose of any such property, to invest and re-invest any proceeds and other funds, and to deal with and expend the principal and income for any purpose herein authorized; (c) to act as trustee; and (d) in general, to exercise any, all, and every power, including trust powers, which a non-profit organized under the laws of New Mexico for the foregoing purposes can be authorized to exercise.

The University will 1) assign staff to service the administrative needs of the Foundation; 2) provide liability insurance for the Foundation's officers and Board members; 3) provide suitable office and meeting space; 4) pay the cost of reasonable utilities, maintenance and repairs, property insurance, and any other reasonable physical facility support services; 5) provide certain reasonable administration support services; and 6) provide, at no cost to the Foundation, reasonable information technology processing and support, including acquisition of appropriate hardware and software.

The Foundation meets the criteria under Governmental Accounting Standards Board (GASB) Statements No. 39 and No. 61 to qualify as a component unit of the New Mexico Highlands University. The Foundation's financial statements are discretely presented in the New Mexico Highlands University audit report. The Foundation has no component units.

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Foundation has prepared its financial statements in conformity with accounting principles generally accepted in the United States of America for governmental entities. The Foundation has no component units, related organizations, joint ventures, or jointly governed organizations. The Foundation's financial statements are reported using a flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

The significant accounting policies are reported in Note A and include one adoption of significant accounting standards as described below.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. <u>Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued</u>

The Foundation implemented Government Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

The Foundation implemented Government Accounting Standards Board Statement No. 63 *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). GASB 63 introduced a fundamental change to the reporting of elements that make up a statement of financial position.

Deferred outflows of resources consumed and deferred inflows of resources received and available as they are now included in the elements that make up a statement of financial position and GASB 63 introduces the term *net position* for reporting the residual of all elements in a statement of financial position. The statement of financial position of the Foundation at June 30, 2016 conforms to the presentation requirements of GASB 63.

The Foundation implemented Governmental Accounting Standards Board Statement No. 65 *Items Previously Reported as Assets and Liabilities* (GASB 65), which changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources for the year ended June 30, 2016. GASB 65 is applicable for years beginning after December 15, 2012 (FY 14). There were no deferred outflows or inflows of resources to separately report at June 30, 2016.

The Foundation implemented Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurements and Application*, which requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement is effective for periods beginning after June 15, 2015.

3. <u>Cash and Cash Equivalents</u>

The Foundation considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Pledges Receivable and Allowance for Doubtful Accounts

Pledges are recorded at net realizable value. Management reviews the collectability of its pledges and if necessary, records an allowance for its estimate of uncollectible amounts.

The Foundation uses the direct write-off method in recognizing uncollectible pledges receivable. Under this method, pledges are charged to operations when they are deemed by management to be uncollectible. There were no pledges receivable written off during 2016.

During 2016, the Foundation was called on to fulfill its guarantee in connection with a bank note receivable made to a local business. The note went into default and the Foundation paid $199,399 to the Bank to settle the amount outstanding.

5. Investments

The Board of Directors has the sole authority and responsibility over the investment assets of the Foundation. The Foundation has adopted an investment in 2008 and amended it in 2016.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet in accordance with GASB 72. Mutual funds are based on the Foundation's pro-rata share of unit value of the mutual funds. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) are reported as increases or decreases in unrestricted net position.

Due to the nature of investments, it is reasonable that changes in the value of investments will occur in the near future and changes could materially affect the amounts reported.

The Foundation has no limitations on the types of investments or deposits it can make within the scope of its investment policy but a Board approval of investments is necessary in certain situations. The following are the target allocations for the investments:

Asset Class	Minimum	Maximum	Preferred
U.S. Equities - Large Cap	25%	40%	35%
U.S. Equities - Mid Cap	5%	15%	10%
U.S. Equities - Small Cap	5%	15%	10%
International Developed Countries	5%	25%	15%
Emerging Markets	0%	15%	10%
U.S. Core Bonds	10%	40%	25%
High Yield Bonds	0%	0%	0%
International Bonds	0%	15%	0%
Alternative Investments	0%	0%	0%
Cash and Cash Equivalents	5%	20%	5%
Other	0%	0%	0%

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Capital Assets

Capital assets used in the Foundation's operations are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. 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 Foundation does capitalize historical treasures and works of art. The Foundation does not currently have any capital assets used in its operations. However, the Foundation does have a building and land held for lease to the University. The Foundation's accounting policy over the building and land held for lease follows the same policy as the above capital assets policy.

The Foundation's art collection is recorded at estimated fair value at the date of acquisition or at cost if acquired. During 2016 additional items were added to the collection and corrections were made to certain items never recorded or recorded incorrectly based on industry reference sources and appraisal services.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 39 years for buildings and 5 to 12 years for furniture, fixtures, and equipment. The Foundation capitalizes capital assets with a cost over $5,000. Art work is not depreciated.

7. Classification of Revenues

The Foundation has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions such as lease income on Foundation capital assets. Revenue on contracts and grants are recognized to the extent that the underlying exchange transaction has occurred. Unrestricted donations are operating items, as they are not financing or investing activities. Fundraising activities are a major activity of the Foundation and are considered operating revenues.

Nonoperating Revenues. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, and are consistently applied as nonoperating revenues by GASB Statement No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement No. 34, such as investment income.

When both restricted and unrestricted resources are available for use, generally it is the Foundation's policy to use the restricted resources first.

Contributions of donated noncash assets are recorded at their fair values in the period received.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Contributed Facilities and Services

Contributed Facilities and Services represent the estimated fair rental value of office space and general corporate services provided by the University. Contributed facilities are provided on a month-to-month basis. Contributed services are recognized if the services received a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services are recorded as in-kind expense and are included with University support in the financial statements.

9. Endowments

The endowment spending policy is in alignment with the long term endowment management philosophy of the Foundation, which is to preserve the permanent viability of the endowment. The Foundation supports vital scholarship and other programs from the earnings 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. (46-9A 1-10 NMSA 1978). During the current year, donor-restricted endowments had net depreciation of $194,314 and investment income of $96,258.

10. 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. Significant estimates used in preparing these financial statements include estimated useful lives of capital assets and valuation of artwork.

11. Income Taxes

The Foundation is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Foundation applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. There were no uncertain tax positions taken by the Foundation for the year ended June 30, 2016. The Foundation's policy is to classify income tax penalties and interest, when applicable, according to their natural classification. There were no income tax penalties or interest for the year ended June 30, 2016. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2013.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Net Position

The Foundation's net position is classified as follows:

Net Investment in Capital Assets. This represents the Foundation'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 net investment in capital assets.

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

Restricted Net Position – Expendable. Expendable restricted net position is resources that the Foundation 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 unrestricted gifts and lease income from the University, net of expenses. These resources may be used at the discretion of the governing board to meet current expenses for any purpose.

13. Subsequent Events

Subsequent events have been evaluated through November 14, 2016, 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 believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTE B – CASH AND CASH EQUIVALENTS

As of June 30, 2016, cash and cash equivalents recorded in the Foundation's financial statements were as follows:

	1st Community Bank
Cash and cash equivalents	
Cash and cash equivalents in the	$ 306,898
Reconciling items	(14,724)
Cash and cash equivalents recorded in financial statements	$ 292,174
Cash and cash equivalents balance	$ 292,174
FDIC insurance	(250,000)
Uninsured amount	$ 42,174

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a policy for custodial credit risk. As of June 30, 2016, $42,174 of the Foundation's bank balance was exposed to uninsured amounts. All of the Foundation's bank balances are held by Community 1st Bank in Las Vegas, New Mexico.

NOTE C – INVESTMENTS

At June 30, 2016, investments of the Foundation are summarized as follows:

Common stock	$ 3,262,573
Cash and money market funds	1,362,565
Certificates of deposit	800,000
U.S. corporate bonds	713,943
U.S. obligations	658,156
Mutual funds	209,552
Total investments	$ 7,006,789

Interest Rate Risk. Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2016, the Foundation had the following investments subject to interest rate risk:

	Maturities	Fair Value
US Obligations		
Treasury	07/31/16 - 11/15/24	$ 473,859
Agency	08/25/16 - 03/07/18	$ 184,297
US Corporate Bonds	01/09/17 - 11/15/43	$ 713,943

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

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2016, the following investments are subject to credit risk:

	Rating	Fair Value
U.S. Agency Obligations	AA+	$ 184,297
U.S. Corporate Bonds	AA+ - B	$ 713,943

All of the Foundation's investments, except its certificates of deposit, are held by Morgan Stanley. Community 1st Bank holds the Foundation's certificates of deposit.

NOTE D – FAIR VALUE OF INVESTMENTS

During fiscal year 2016, the Foundation adopted the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which establishes fair value standards for certain investments held be governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at December 31, 2016.

Investments held in cash and cash equivalents, certificates of deposit, and money market funds were valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

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

NOTE D – FAIR VALUE OF INVESTMENTS – CONTINUED

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

The following table presents the fair value measurements of the assets and liabilities at June 30, 2016:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At June 30, 2016				
Common stock	$ 3,262,573	$ 3,262,573	$ -	$ -
Cash and money market funds	1,362,565	1,362,565	-	-
Certificates of deposit	800,000	800,000	-	-
U.S. corporate bonds	713,943	713,943	-	-
U.S. obligations	658,156	658,156	-	-
Mutual funds	209,552	209,552	-	-
	$ 7,006,789	$ 7,006,789	$ -	$ -

NOTE E – ASSETS HELD FOR OTHERS AND TRANSACTION WITH THE PRIMARY INSTITUTION

As of June 30, 2016, assets held for the Foundation consist of University Endowments in the amount of $1,711,384.

During 2016, the Foundation provided $181,000 of funds to the University in relation to an endowment received by Highlands requiring matching funds. In total, $265,598 of scholarship funds were provided to the University.

NOTE F – LIFE INSURANCE CONTRACT

The Foundation owns, and is the beneficiary of, a $100,000 Whole Life insurance policy on one of the Board Members. The Foundation pays the annual premium of $2,873. As of June 30, 2016, the insurance policy had a cash value of $80,234, which is recorded as an asset of the Foundation.

NOTE G – CAPITAL ASSETS

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	$ 2,409,841	$ -	$ -	$ 2,409,841
Artwork	2,967,365	377,240	(124,390)	3,220,215
	5,377,206	377,240	(124,390)	5,630,056
Capital assets being depreciated				
Buildings held for lease to University	2,250,237	-	-	2,250,237
Accumulated depreciation				
Buildings	(980,874)	(57,698)	-	(1,038,572)
Capital assets, net	$ 6,646,569	$ 319,542	$ (124,390)	$ 6,841,721

Depreciation expense for the year totaled $57,698.

NOTE H – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Amount due Within one year
Note Payable	$ 1,086,208	$ 22,719	$ 166,557	$ 942,370	$ 153,739

NOTE I – NOTE PAYABLE

The Foundation has a 4% note payable to a bank related to its Rio Rancho land and building. The Foundation has the ability to make additional draws on the loan to upgrade and remodel the building. During 2016 an additional $22,719 was drawn on the loan for this purpose. The loan is due in monthly installments of $17,346 through October 2021, at which time the remaining balance is due. The terms of the note include a due on demand clause, and so the balance due on the note is included in current liabilities. The building is pledged as collateral on the loan.

NOTE I – NOTE PAYABLE - CONTINUED

Debt service requirements for future fiscal years, if no demand is made, are as follows:

2017	$ 153,739
2018	163,604
2019	174,101
2020	185,273
2021	197,161
Thereafter	68,492
	$ 942,370

NOTE J – LEASE WITH NEW MEXICO HIGHLANDS UNIVERSITY

The Foundation leases a building it owns in Rio Rancho, New Mexico to New Mexico Highlands University. The Foundation entered into a twenty-year operating lease agreement on January 30, 1997. Lease income for the year ended June 30, 2016, was $378,680.

The Foundation has entered into a second operating lease agreement with Highlands University 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, 2016, was $40,300.

NOTE K – RISK MANAGEMENT

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

SUPPLEMENTARY INFORMATION

New Mexico Highlands University Foundation, Inc.
(A Component Unit of New Mexico Highlands University)

SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING $60,000
(EXCLUDING GRT)
(UNAUDITED)

As of June 30, 2016

RFB#/RFP#	Type of Procurement	Awarded Vendor	$ Amount of Awarded Contract	$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work

There were no contracts exceeding $60,000.

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

Board of Directors
New Mexico Highlands University Foundation, Inc.
and
Mr. Tim 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 New Mexico Highlands University Foundation, Inc. (Foundation) (a component unit of New Mexico Highlands University), the Statement of Net Position as of June 30, 2016, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year ended and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 12-6-5 NMSA 1978, and which are described in the accompanying schedule of findings and responses as item 2015-002.

Foundation's Responses to the Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2016

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

PRIOR YEAR FINDINGS

2015-001 Investment Policy Statement - Resolved

2015-002 Foundation Budget (Other Noncompliance) – Updated and Repeated

2015-003 Bylaws - Resolved

CURRENT AUDIT FINDINGS

2015-002 Foundation Budget (Other Noncompliance)

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2016

2015-002 Foundation Budget (Other Noncompliance) (Updated and Repeated)

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. The Foundation discussed its plans for a budget format and approval timing in its last meeting. Procedures to eliminate this finding are in progress.

CRITERIA
The Bylaws of the Foundation as Amended 2008 (updated and amended on July 15, 2016) indicate that an annual budget shall be created and 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.

CAUSE
The revenue and expenses that the Foundation is responsible for are not complex. The New Mexico Highlands University is responsible for operating items including administrative staff assigned to the Foundation and other needed administrative expenses. Investment returns do not readily lend themselves to a budget process except for investment expenses and dividends and interest. Due to changes in management personnel, the Foundation has operated with different individuals in most recent years. Current management is working with the Board on developing budget format and process, but has not been able to complete their work to bring this finding to a close.

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

Although the NMHU Foundation does not yet have a forward-looking budget in place that has been approved by its Board of Directors, significant progress on addressing this finding has been made, including formation of a Budget Committee by the Board of Directors at its July 15, 2016 meeting, initial presentations of budget format and past budget data to the Budget Committee Chair in August, September, and October, and ongoing efforts to complete a draft budget for presentation to the Board of Directors at its March 2017 meeting.

New Mexico Highlands University Foundation, Inc.
(A Component Unit of New Mexico Highlands University)

EXIT CONFERENCE

June 30, 2016

The contents of this report were discussed in an exit conference held on November 9, 2016.

Representing New Mexico Highlands University Foundation, Inc.:

Max Baca	Interim Vice President Finance and Administration, Highlands University
Dr. Sam Minner	President

Representing Atkinson & Co., Ltd.:

Marty Mathisen, CPA, CGFM	Audit Shareholder/Director
Sarah Brack, CPA, CGFM	Audit Manager

The financial statements were prepared with the assistance of Atkinson & Co., Ltd. from the books and records of the New Mexico Highlands University Foundation, Inc.

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