



*Service plus value, it all adds up.*

6200 Uptown Blvd., NE Suite 400

Albuquerque, NM 87110

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

**FINANCIAL STATEMENTS**  
**AND INDEPENDENT**  
**AUDITOR'S REPORT**

**JUNE 30, 2018**

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A Component Unit of New Mexico Highlands University)**

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**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A Component Unit of New Mexico Highlands University)**

**OFFICIAL ROSTER**

**June 30, 2018**

**BOARD OF DIRECTORS**

**Board of Regents**

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	Treasurer/2nd Vice President/Public Director
Dr. Carlotta E. Lockmiller	Secretary/Public Director
Mr. Christopher "Max" Baca	Public Director/Ex-officio Director
Mr. Jim Franken	Public Director
Mr. Albert Girard	Public Director
Dr. Eileen Madrid	Public Director
Mr. Vince E. Marchi	Public Director/President Alumni Assoc.
Mr. William Melton	Public Director
Mr. Rick Miera	Public Director
Mr. Joseph Montoya	Public Director
Dr. Barbara A. Perea Casey	Public Director
Dr. D. Pauline Rindone	Public Director
Mr. Joe H. Staley, Jr.	Public Director
Mr. Tom Whitson	Public Director
Mr. Leveo V. Sanchez	Chair, Board of Regents
Ms. Editha Bartley	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**

Mrs. Theresa Law, JD, CFRE	Executive Director/VP of Advancement
Ms. Juli Salman	Alumni Director
Mrs. Louise CdeBaca	Development Finance Officer
Ms. Corie Weaver	Director Advancement Services
Ms. Stephanie Santillanes	Senior Annual Giving Officer
Ms. Lyla Maestas	Administrative Assistant

## **FINANCIAL SECTION**



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Albuquerque, NM 87110  
505 338 0800 office [www.riccipa.com](http://www.riccipa.com)

## INDEPENDENT AUDITOR'S REPORT

Wayne Johnson  
New Mexico State Auditor  
and  
The Board of Regents  
New Mexico Highlands University Foundation Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and 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, 2018, 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 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 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 entity'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 governmental activities and the business-type activities, of the Foundation, as of June 30, 2018, and the respective changes in financial position and, where applicable, 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

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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 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 the effectiveness of the Foundation's 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.

*Ricci & Company, LLC*  
Albuquerque, New Mexico  
October 31, 2018

## **BASIC FINANCIAL STATEMENTS**

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 744,669
Accounts receivable	2,597
Pledges receivable	70,000
Prepaid assets	<u>3,337</u>

**Total current assets** 820,603

Noncurrent Assets

Restricted cash	572,078
Pledges receivable	164,844
Life insurance contract	82,617
Investments, including assets held for others of \$2,350,169	7,996,014
Capital assets, net	<u>7,011,064</u>

Total noncurrent assets 15,826,617

**Total assets** \$ 16,647,220

**LIABILITIES AND NET POSITION**

Current Liabilities

Accounts payable and accrued liabilities	\$ 15,102
Accrued interest payable	1,684
Notes payable, current portion	<u>182,753</u>

**Total current liabilities** 199,539

Long-term liabilities:

Notes payable, net of current portion	1,096,021
Assets held for others	<u>2,350,169</u>

**Total long-term liabilities** 3,446,190

**Total liabilities** 3,645,729

**NET POSITION**

Invested in capital assets, net of related debt	5,732,290
Restricted, non-expendable	4,433,937
Restricted expendable	1,294,646
Unrestricted	<u>1,540,618</u>

**Total net position** 13,001,491

**Total liabilities and net position** \$ 16,647,220

The Notes to the Financial Statements are an integral part of this statement.



**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**June 30, 2018**

**OPERATING REVENUES - UNRESTRICTED**

Lease income	\$ 388,321
Contributions from donors	577,267
Contributed facilities and services	197,878
In-kind contributions	<u>168,434</u>

**Total operating revenues** 1,331,900

**OPERATING EXPENSES**

University support	308,252
Operating expenses	386,948
Student aid grants and stipends	178,233
Contributed facilities and services	197,878
Depreciation	<u>57,698</u>

**Total operating expenses** 1,129,009

Operating income 202,891

**NONOPERATING ACTIVITIES**

Loss on sale of artwork	(8,915)
Investment income, net	<u>390,638</u>

**Net non-operating activities** 381,723

**CHANGES IN NET POSITION** 584,614

Net Position - beginning of year 12,416,877

**Net Position, end of year** \$ 13,001,491

The Notes to the Financial Statements are an integral part of this statement.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from donors	\$ 405,747
Cash received from leasing activities	388,321
Cash paid to beneficiaries and vendors	<u>(750,090)</u>
<b>Net cash provided by operating activities</b>	<b>43,978</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	
Investment income, net	381,723
Purchases of investments	(228,771)
Proceeds from sale of artwork	3,703
Change in cash surrender value of life insurance	<u>(1,082)</u>
<b>Net cash provided by investing activities</b>	<b>155,573</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from long term debt borrowings	700,000
Principal payments on note payable	<u>(190,457)</u>
<b>Net cash provided by capital and related financing activities</b>	<b>509,543</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b><u>709,094</u></b>
Restricted cash, beginning of year	248,858
Cash and cash equivalents, beginning of year	<u>358,795</u>
Subtotal	607,653
Restricted cash, end of year	<u>572,078</u>
<b>Cash and cash equivalents, end of year</b>	<b><u><u>\$ 744,669</u></u></b>

The Notes to the Financial Statements are an integral part of this statement.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**Year Ended June 30, 2018**

Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$	202,891
Adjustments to reconcile operating income and net cash provided by operating activities		
Depreciation expense		57,698
Investment fees		58,469
Capitalized in-kind items		(122,095)
Loss on sale of artwork		8,915
Changes in assets and liabilities		
Pledges and accounts receivable		(171,520)
Prepaid assets		(212)
Accounts payable and accrued liabilities		(16,427)
Accrued interest payable		786
Assets held for others		25,473
		<hr/>
<b>Net cash provided by operating activities</b>	<b>\$</b>	<b>43,978</b>
		<hr/> <hr/>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Non-cash contributions, less capitalized items	\$	244,217
Interest paid	\$	45,415

The Notes to the Financial Statements are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

***Organization and Nature of Activities.*** New Mexico Highlands University Foundation, Inc., a not-for-profit organization, (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.

***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 1 and include one adoption of significant accounting standards as described below.

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

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation. (cont.)* type reporting entities to apply certain Financial Accounting Standards guidance after November 31, 1989.

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, 2018 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. 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, 2018.

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.

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

*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 receivables written off during fiscal year 2018.

*Investments.* The Board of Directors has the sole authority and responsibility over the investment assets of the Foundation. The Foundation had adopted an investment policy in 2008 and amended it in 2017.

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.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**Investments.** (cont.) 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 temporarily restricted 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	20%	45%	35%
U.S. Equities – Small Cap	5%	15%	10%
International Equity	10%	25%	15%
Total Fixed Income	25%	50%	35%
Alternative Investments	0%	10%	0%
Cash and Cash Equivalents	0%	10%	5%

**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 not 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 purchased.

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. All art work is capitalized and is not depreciated.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

***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 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.

***Contributed Facilities and Services.*** Contributed Facilities and Services represent the estimated fair rental value of the 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.

***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.

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as increases or decreases in temporarily restricted 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 \$487,634 and investment income of \$129,289.



**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**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.

**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, 2018. 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, 2018. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2014.

**Subsequent Events**

The Foundation has evaluated subsequent events through October 31, 2018, which is the date the financial statements were available to be issued and concluded that no additional disclosures are required.

**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, 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 continually 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.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 2. CASH AND CUSTODIAL CREDIT RISK**

As of June 30, 2018, cash and cash equivalents and restricted cash recorded in the Foundation's financial statements were as follows:

	1 <sup>st</sup> Community Bank	Southwest Capital Bank
Cash and cash equivalents in the Foundation	261,805	484,375
Reconciling items	-	(1,511)
Cash and equivalents in financial statements	261,805	482,864
Restricted cash	-	572,078
Total cash in financial institutions	261,805	1,054,942
FDIC Insurance	(250,000)	(250,000)
Uninsured amount	11,805	804,942

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, 2018, \$816,747 of the Foundation's bank balance was exposed to no uninsured amount as the foundation is covered by the CDARS program. The Foundation holds bank balances at 1<sup>st</sup> Community Bank and Southwest Capital Bank, both in Las Vegas, New Mexico.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 3. INVESTMENTS**

At June 30, 2018 investments of the Foundation are summarized as follows:

Fixed income	\$ 891,808
Equities	3,166,345
Mutual funds	2,795,355
Cash and money market funds	<u>142,506</u>
Subtotal	6,996,014
Certificates of deposit	<u>1,000,000</u>
<b>Total investments</b>	<b><u>\$ 7,996,014</u></b>

*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, 2018, the Foundation had the following investments subject to interest rate risk:

	<u>Maturities</u>	<u>Fair Value</u>
US Obligations		
Treasury and Agency	06/30/18 - 08/15/26	\$ 581,321
US Corporate Bonds	12/11/17 - 07/15/22	\$ 310,486

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, 2018, the following investments are subject to credit risk:

	<u>Rating</u>	<u>Fair Value</u>
U.S. Agency Obligations	AA +	\$ 581,321
U.S. Corporate Bonds	AA+/BBB+	\$ 310,972

All of the Foundation's investments, except its certificates of deposit, are held by Morgan Stanley. Community 1<sup>st</sup> Bank and Southwest Capital Bank holds the Foundation's certificates of deposit.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 4. 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 by 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.

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.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 4. FAIR VALUE OF INVESTMENTS (CONTINUED)**

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.

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, 2018:

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
At June 30, 2018				
Common stock	\$ 3,166,348	3,166,348	-	-
Cash and money market funds	142,504	142,504	-	-
U.S. Treasury	581,321	581,321	-	-
U.S. Corporate bonds	310,486	-	310,486	-
Mutual funds	2,795,355	2,795,355	-	-
Certificates of deposit	<u>1,000,000</u>	<u>1,000,000</u>	-	-
	<u>\$7,996,014</u>	<u>7,685,528</u>	<u>310,486</u>	<u>-</u>

**NOTE 5. ASSETS HELD FOR OTHERS AND TRANSACTION WITH THE PRIMARY INSTITUTION**

As of June 30, 2018, assets held for the Foundation consist of University Endowments in the amount of \$2,350,169.

During 2018, the Foundation provided \$175,271 of scholarship funds to the University.

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 6. LIFE INSURANCE CONTRACT**

The Foundation owns, and is the beneficiary of, a \$100,000 Whole Life insurance policy on one of the Board Members, who pays the annual premiums. As of June 30, 2018, the insurance policy had a cash value of \$82,617, which is recorded as an asset of the Foundation and determined by the life insurance company.

**NOTE 7. CAPITAL ASSETS**

	<b>Balance,</b>			<b>Balance,</b>
	<b>June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2018</b>
Capital assets not being depreciated:				
Land	\$ 2,409,841	15,500	-	2,425,341
Artwork	3,391,774	114,599	(16,918)	3,489,455
	<u>5,801,615</u>	<u>130,099</u>	<u>(16,918)</u>	<u>5,914,796</u>
Capital assets being depreciated:				
Buildings held for lease to University	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Accumulated depreciation				
Buildings	<u>(1,096,271)</u>	<u>(57,698)</u>	-	<u>(1,153,969)</u>
<b>Capital assets, net</b>	<u>\$6,955,581</u>	<u>72,401</u>	<u>(16,918)</u>	<u>7,011,064</u>

Depreciation expense for the year totaled \$57,698.

**NOTE 8. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2018, is as follows:

	<b>Balance,</b>			<b>Balance,</b>	<b>Amount</b>
	<b>June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2018</b>	<b>Due Within</b>
					<b>One Year</b>
Notes Payable	\$ <u>769,231</u>	<u>700,000</u>	<u>(190,457)</u>	<u>1,278,774</u>	<u>182,753</u>

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 9. 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 2018 there were no additional draws 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. Interest expense for the year totaled \$27,163.

The Foundation has an additional 6% notes payable to a bank related to its Rio Rancho land and building. During 2018 there was one draw of \$700,000 to initiate the loan, and no additional draws have been made. The loan is due in monthly installments of \$4,620 through December 2027, with an interest rate change in 2022. The terms of the note include a due on demand clause. Interest expense for the year totaled \$20,848.

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

Year	Principal
2019	\$ 182,753
2020	190,495
2021	198,573
2022	<u>706,953</u>
	<u>\$ 1,278,774</u>

**NOTE 10. 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, 2018, was \$338,321.

The Foundation has 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, 2018, was \$31,763.

**NOTE 11. 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 years and settlements have not exceeded coverage in the past three years.

**SUPPLEMENTAL INFORMATION**





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*Service plus value, it all adds up.*

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

Wayne Johnson  
New Mexico State Auditor  
and  
The Board of Regents  
New Mexico Highlands University Foundation Inc.

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 governmental activities, 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, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated November 1, 2018.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 12-6-5 NMSA 1978.

## **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.

*Ricci & Company, LLC*

Albuquerque, New Mexico  
October 31, 2018

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.  
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2018**

**PRIOR YEAR FINDINGS**

2015-002      Foundation Budget (Other Noncompliance) - Resolved

2017-001      Restricted accounts (Other Noncompliance) - Resolved

2017-002      Internal Controls (Other Noncompliance) - Resolved

**CURRENT AUDIT FINDINGS**

None

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.  
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)  
EXIT CONFERENCE  
June 30, 2018**

An exit conference was held on October 26, 2018, with the following in attendance:

**New Mexico Highlands University Foundation, Inc.:**

Dr. Sam Minner	Chairman of the Board
Max Baca	Vice President for Finance and Administration
Theresa M. Law, JD, CFRE	Executive Director/VP of Advancement
Louise CdeBaca	Development Finance Officer

**Ricci & Company LLC Personnel:**

Mark Santiago, CPA	Senior Audit Manager
Sameer Rasheed	Audit Supervisor

**A. PREPARATION OF FINANCIAL STATEMENTS**

The financial statements were prepared with the assistance of Ricci & Company LLC from the books and records of the Corporation. The financial statements and related footnotes remain the responsibility of management.