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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 AUDITORS'
REPORT

June 30, 2019

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, 2019

BOARD OF DIRECTORS

Mr. Jay D. Moore	President/Public Director
Dr. Sam Minner	Ex Officio
Ms. Tina M. Cordova	First Vice President/Public Director
Dr. Carlotta E. Lockmiller	Secretary/Public Director
Mr. Christopher "Max" Baca	Ex-officio Director
Mr. Jim Franken	Public Director
Dr. James Abreu	Public Director
Dr. Eileen Madrid	Public Director
Mr. Vince E. Marchi	Treasurer/Public Director
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.	Director
Mr. Tom Whitson	Public Director
Mr. Leveo V. Sanchez	Emeritus Director
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. William E. Garcia	Emeritus Director
Mr. Matias Zamora	Emeritus Director
Dr. G. Doyle Daves, Jr.	Emeritus Director
Mrs. Linda Mitchell Davis	Emeritus Director
Ms. Joe H. Staley, Jr.	Emeritus Director
Ms. Viola Martinez	Public Director
Ms. Felicia Ortiz	Public 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	Development Associate

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Brian S. Colón, Esq.
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 New Mexico Highlands University Foundation Inc. (the Foundation, a nonprofit organization and component unit of New Mexico Highlands University), as of and for the year ended June 30, 2019, 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.

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 auditors' 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 position of the Foundation, as of June 30, 2019, and the changes in financial position and cash flows 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 16, 2019 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 16, 2019

BASIC FINANCIAL STATEMENTS

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

June 30, 2019

ASSETS

Current Assets

Cash and cash equivalents	\$ 692,958
Accounts receivable	7,629
Pledges receivable	120,753
Prepaid assets	3,336

Total current assets 824,676

Noncurrent Assets

Restricted cash	520,764
Pledges receivable	44,266
Life insurance contract	83,934
Investments, including assets held for others of \$2,441,940	8,752,069
Capital assets, net	7,087,465

Total noncurrent assets 16,488,498

Total assets \$ 17,313,174

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable and accrued liabilities	\$ 17,708
Accrued interest payable	1,841
Notes payable, current portion	224,962

Total current liabilities 244,511

Long-term liabilities:

Notes payable, net of current portion	845,976
Assets held for others	2,441,940

Total long-term liabilities 3,287,916

Total liabilities 3,532,427

NET POSITION

Invested in capital assets, net of related debt	6,016,527
Restricted, non-expendable	5,015,279
Restricted expendable	1,245,155
Unrestricted	1,503,786

Total net position 13,780,747

Total liabilities and net position \$ 17,313,174

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
Year ended June 30, 2019

OPERATING REVENUES - UNRESTRICTED

Lease income	\$ 426,336
Contributions from donors	799,699
Contributed facilities and services	3,618
In-kind contributions	261,965

Total operating revenues 1,491,618

OPERATING EXPENSES

University support	232,063
Operating expenses	317,814
Student aid grants and stipends	179,125
Contributed facilities and services	265,583
Depreciation	57,698

Total operating expenses 1,052,283

Operating income 439,335

NONOPERATING ACTIVITIES

Loss on sale of artwork	(7,550)
Investment income, net	347,473

Net non-operating activities 339,923

Income before additions to permanent endowments 779,258

CHANGES IN NET POSITION 779,258

Net Position - beginning of year 13,001,489

Net Position, end of year \$ 13,780,747

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from donors	\$ 956,263
Cash received from leasing activities	426,336
Cash paid to beneficiaries and vendors	<u>(728,708)</u>
Net cash provided by operating activities	653,891
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Investment income, net	347,473
Purchases of investments	(756,055)
Purchase of capital assets	(141,649)
Proceeds from sale of artwork	2,467
Change in cash surrender value of life insurance	<u>(1,316)</u>
Net cash provided by investing activities	(549,080)
CASH FLOWS FROM CAPITAL AND RELATED	
FINANCING ACTIVITIES	
Principal payments on note payable	<u>(207,836)</u>
Net cash provided by capital and related financing activities	(207,836)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(103,025)</u>
Restricted cash, beginning of year	572,078
Cash and cash equivalents, beginning of year	744,669
Subtotal	<u>1,316,747</u>
Restricted cash, end of year	<u>520,764</u>
Cash and cash equivalents, end of year	<u>\$ 692,958</u>

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, 2019

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 439,335
Adjustments to reconcile operating income and net cash provided by operating activities	
Depreciation expense	57,698
Changes in assets and liabilities	
Accounts receivable	(5,032)
Pledges and accounts receivable	67,357
Prepaid assets	1
Accounts payable and accrued liabilities	2,606
Accrued interest payable	155
Assets held for others	91,771
	<hr/>
Net cash provided by operating activities	<u><u>\$ 653,891</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash contributions	\$ 265,583
Interest paid	\$ 46,046

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, 2019

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 suitable office and meeting space; 3) pay the cost of reasonable utilities, maintenance and repairs, property insurance, and any other reasonable physical facility support services; 4) provide certain reasonable administration support services; and 5) 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

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

appropriate. It further eliminates the election for proprietary fund and business 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, 2019 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, 2019.

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 2019.

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, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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 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. During 2019 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.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The Foundation capitalizes capital assets with a cost over \$5,000. All artwork is capitalized and is not depreciated.

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.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowments (Continued)

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 \$232,915 and investment income of \$256,574.

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, 2019. 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, 2019. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2015.

Subsequent Events

The Foundation has evaluated subsequent events through October 16, 2019, 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.

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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 represents 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.

NOTE 2. CASH AND CUSTODIAL CREDIT RISK

As of June 30, 2019, cash and cash equivalents and restricted cash recorded in the Foundation's financial statements were as follows:

	1st Community Bank	Southwest Capital Bank	NM Bank & Trust
Cash and cash equivalents in the Foundation			
Unrestricted	\$ 303,625	228,401	\$ 367,507
Restricted cash	-	4,700	500,471
Total cash in financial institutions	303,625	233,101	867,978
FDIC Insurance	(250,000)	(250,000)	(250,000)
Uninsured amount	\$ 53,625	-	\$ 617,978

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, 2019, \$671,603 of the Foundation's bank balance was uninsured. The uninsured balances consist of private donations and do not require collateralization as they are not considered to be public monies. The Foundation holds bank balances at 1st Community Bank and Southwest Capital Bank, which are both located 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, 2019

NOTE 3. INVESTMENTS

At June 30, 2019 investments of the Foundation are summarized as follows:

Fixed income	\$ 2,375,395
Equities	4,870,873
Mutual Funds	384,703
Cash and money market funds	113,846
Accrued interest	7,252
Subtotal	<u>7,752,069</u>
Certificates of deposit	1,000,000
Total investments	<u><u>\$ 8,752,069</u></u>

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, 2019, the Foundation had the following investments subject to interest rate risk:

	<u>Maturities</u>	<u>Fair Value</u>
US Obligations		
Treasury and Agency	08/31/20 - 02/15/49	\$ 642,598
US Corporate Bonds	09/15/23 - 08/08/46	\$360,428

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, 2019, the following investments are subject to credit risk:

	<u>Rating</u>	<u>Fair Value</u>
U.S. Agency Obligations	AA+	\$ 642,598
U.S. Corporate Bonds	AA+/BBB+	\$ 360,428

All of the Foundation's investments, except its certificates of deposit, are held by Merrill Lynch. Community 1st 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, 2019

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, 2019

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:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At June 30, 2019				
Common stock	\$ 3,504,108	3,504,108	-	\$ -
Cash and money market funds	113,846	113,846	-	-
U.S. Treasury	642,598	642,598	-	-
U.S. Corporate bonds	360,428	-	360,428	-
Mutual funds	3,123,837	3,123,837	-	-
Certificates of deposit	1,000,000	1,000,000	-	-
Accrued interest	7,252	7,252	-	-
	<u>\$ 8,752,069</u>	<u>8,391,641</u>	<u>360,428</u>	<u>\$ -</u>

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

As of June 30, 2019, assets held for the Foundation consist of University Endowments in the amount of \$2,441,940.

During 2019, the Foundation provided \$173,427 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, 2019

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, 2019, the insurance policy had a cash value of \$83,934, which is recorded as an asset of the Foundation and determined by the life insurance company.

NOTE 7. CAPITAL ASSETS

	Balance June 30, 2018	Additions	Deletions	Balance June LA 2019
Capital assets not being depreciated:				
Land	\$ 2,425,341			\$ 2,425,341
Artwork	3,489,455	141,649	(7,550)	3,623,554
	<u>5,914,796</u>	<u>141,649</u>	<u>(7,550)</u>	<u>6,048,895</u>
Capital assets being depreciated:				
Buildings held for lease to University	2,250,237			2,250,237
Accumulated depreciation				
Buildings	<u>(1,153,969)</u>	<u>(57,698)</u>		<u>(1,211,667)</u>
Capital assets, net	<u>\$ 7,011,064</u>	<u>83,951</u>	<u>(7,550)</u>	<u>\$ 7,087,465</u>

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

NOTE 8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2019, is as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019	Amount Due Within One Year
Notes Payable	<u>\$ 1,278,774</u>	<u>-</u>	<u>(207,836)</u>	<u>1,070,938</u>	<u>\$ 224,962</u>

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 2019 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

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 9. NOTE PAYABLE (CONTINUED)

due. The terms of the note include a due on demand clause. Interest expense for the year totaled \$20,618.

The Foundation has an additional 5% notes payable to a bank related to its Rio Rancho land and building. During 2017 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 \$35,297.

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

Year	Principal	Interest	Total
2020	\$ 224,962	38,630	\$ 263,592
2021	234,274	29,318	263,592
2022	33,658	23,744	57,402
2023	578,044	11,400	589,444
2024	-		
	\$ 1,070,938	103,092	\$ 1,174,030

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, 2019, 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. In March 2019, the University extended the lease for one year. Monthly rental is \$3,100 per month. Rental income for the year ended June 30, 2019, was \$37,200.

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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**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***

Independent Auditors' Report

Brian S. Colón, Esq.
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 New Mexico Highlands University Foundation, Inc. (the Foundation) (a component unit of New Mexico Highlands University), which comprise the statement of net position as of June 30 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 16, 2019.

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 16, 2019

NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

PRIOR YEAR FINDINGS

None

CURRENT AUDIT FINDINGS

None

**NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION, INC.
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
EXIT CONFERENCE
June 30, 2019**

An exit conference was held on October 10, 2019, with the following in attendance:

New Mexico Highlands University Foundation, Inc.:

Dr. Sam Minner	President, New Mexico Highlands University
Max Baca	Vice President for Finance and Administration, New Mexico Highlands University
Vince Marchi	Treasurer, New Mexico Highlands University Foundation
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
Mike Easley, CPA	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.