

NEW MEXICO JUNIOR COLLEGE

FINANCIAL STATEMENTS
With
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
Year Ended June 30, 2011



NEW MEXICO JUNIOR COLLEGE

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NEW MEXICO JUNIOR COLLEGE
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JUNE 30, 2011

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NEW MEXICO JUNIOR COLLEGE
OFFICIAL ROSTER
JUNE 30, 2011

Name	BOARD MEMBERS	Title
Guy Kesner		Chairman
Pat Chappelle		Secretary
Phillip Jones		Member
Mary Lou Vinson		Member
Ron Black		Member
Hector Baeza		Member
Vacant		Member

**ADMINISTRATIVE
OFFICIALS**

Dr. Steve McCleery	President
Dan Hardin	Vice-President for Finance
Dr. John Gratton	Vice-President for Instruction
Dr. Regina Organ	Vice-President for Student Services
Dr. Robert Rhodes	Vice-President for Training and Outreach

Name	NMJC FOUNDATION BOARD MEMBERS	Title
Debra Hicks		President
David Shaw		Vice President
Dan Hardin		Treasurer
Tina Kunko		Secretary



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Board of Directors
New Mexico Junior College
Hobbs, New Mexico

We have audited the accompanying financial statements of the business-type activities of New Mexico Junior College (the College) and its discretely presented component unit, as of and for the year ended June 30, 2011, as listed in the table of contents. We have also audited the budget comparison schedules presented as supplemental information for the year ended June 30, 2011. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison schedules referred to above present fairly, in all material respects, the budgetary comparisons for the College as of June 30, 2011, in conformity with the budgetary basis of accounting as prescribed in the New Mexico Administrative Code, as more fully described in Note 1 to the financial statements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011 on our consideration of the College'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The Management's Discussion and Analysis on pages 8 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the College, its discretely presented component unit and the budgetary comparisons presented as supplemental information. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The supplemental data presented in schedules I through schedule III is presented for additional analysis purposes and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Certified Public Accountants
Hobbs, New Mexico
November 9, 2011

Overview of the Financial Statements and Financial Analysis

For financial reporting purposes, New Mexico Junior College (College) is considered a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

This report consists of Management's Discussion and Analysis (this part), the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the College. Included in the reports and discussion is the New Mexico Junior College Foundation as a component unit for fiscal year 2011.

The discussion and analysis of the College's financial statements provides an overview of its financial activities as of and for the year ended June 30, 2011. This discussion gives a comparative analysis of business-type activity from fiscal year 2010 to fiscal year 2011.

Financial Highlights

- The College's assets exceeded its liabilities at the close of the June 30, 2011 fiscal year by \$76,324,828. Of this amount, \$15,928,005 is unrestricted and may be used for the College's ongoing operations.
- The College's financial position improved in 2010/2011 as compared to prior years. Net assets increased during the year by \$2,711,341 over the previous year. The increase resulted primarily from unbudgeted revenue from local mill levy.
- The College's investments reflect \$11,589,592 at June 30, 2011, all of which are with the Local Government Investment Pool.

The Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Net Assets

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets report the College's net assets and how they have changed. Net Assets—the difference between assets and liabilities—is one way to measure the College's financial health, or position. Over time, increases or decreases in the College's net assets are an indicator of whether its financial health is improving or deteriorating. Non-financial factors are also important to consider, including student enrollment and the condition of campus facilities. These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the College's assets, liabilities, and net assets as of June 30, 2011, and includes the comparison to the prior year.

See Independent Auditor's Report

NEW MEXICO JUNIOR COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011 Component Unit</u>
Assets:			
Current assets	\$ 19,439,373	\$ 20,281,204	\$ 645,317
Capital assets	62,759,429	59,366,390	-
Noncurrent assets-			
Investments	-	-	4,867,612
Restricted cash	538,831	501,425	-
Total assets	<u>\$ 82,737,633</u>	<u>\$ 80,149,019</u>	<u>\$ 5,512,929</u>
Liabilities:			
Current liabilities	\$ 3,576,282	\$ 2,926,356	\$ 690
Non-current liabilities	<u>2,836,523</u>	<u>3,609,176</u>	-
Total liabilities	<u>6,412,805</u>	<u>6,535,532</u>	<u>690</u>
Net Assets:			
Invested in capital assets, net of related of debt	59,857,992	55,778,316	-
Restricted:			
Nonexpendable endowment	-	-	4,198,127
Expendable grants, bequests and contribution:	-	-	1,220,513
Expendable future debt service requirements	538,831	-	-
Unrestricted net assets	<u>15,928,005</u>	<u>17,835,171</u>	<u>93,599</u>
Total net assets	<u>\$ 76,324,828</u>	<u>\$ 73,613,487</u>	<u>\$ 5,512,239</u>

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of the College's financial position. For the College, assets exceeded liabilities by \$73,613,487 at the close of June 30, 2010, as compared to the \$76,324,828 as of June 30, 2011. As of June 30, 2011 the Net Assets consists of investment of capital assets (e.g. land, buildings, and equipment), net of related debt in the amount of \$59,857,992 or 78%. The College uses these capital assets in its mission to provide postsecondary educational services to the College's service area; consequently, these assets are not available for future spending. Capital Assets increased in the 2011 fiscal year by \$3,393,039, net of depreciation expense of \$3,170,479. Net Assets also consist of 21% unrestricted Net Assets, or \$15,928,005. Unrestricted net assets include \$538,831, or 1% of expendable future debt service funds and unrestricted net assets available for the College's ongoing operation. The Statement of Net Assets indicates growth in capital assets. Increases are due to the completion of construction projects and as well as renewal and replacement projects.

See Independent Auditor's Report

NEW MEXICO JUNIOR COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table summarizes the College's revenues, expenses, and changes in net assets for the year ending June 30, 2011 and includes a comparison to the year ended June 30, 2010.

Revenues, Expenses and Changes in Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011 Component Unit</u>
Operating revenues	\$ 11,036,419	\$ 14,018,474	\$ 227,918
Operating expenses	<u>35,063,319</u>	<u>32,942,492</u>	<u>163,579</u>
Operating (loss) income	(24,026,900)	(18,924,018)	64,339
Non-operating revenues and expenses	<u>25,127,213</u>	<u>23,825,488</u>	<u>779,578</u>
Income before other revenue	1,100,313	4,901,470	843,917
Capital appropriations	<u>1,611,028</u>	<u>5,037,804</u>	-
Increase in net assets	<u>\$ 2,711,341</u>	<u>\$ 9,939,274</u>	<u>\$ 843,917</u>

Analysis of Changes in Net Assets

The College's net assets increased by \$2,711,341 during the 2011 fiscal year as compared to an increase of \$9,939,274 for the 2010 fiscal year. Operating revenues were \$11,036,419 in 2011, which is a decline of \$2,982,055 from fiscal year 2010. Operating expenses were \$35,063,319 in fiscal year 2011, which is an increase of \$2,120,827 from fiscal year 2010.

Operating Revenues

The following table summarizes the College's operating revenues of \$11,036,419 for the fiscal year ended June 30, 2011, as compared to the operating revenues of \$14,018,474 in 2010. FY 11 reflects an increase in gross tuition and fees, which is mostly due to the increase in tuition rates. The operating revenue report has a decrease in Federal grants and contract revenue as Pell grant revenue was moved from Operating revenue to Non-Operating revenue. Auxiliary enterprises experienced a decrease in operating revenue for FY 11. This decline was across all areas of Auxiliary Enterprises and was due to a downturn in enrollment. Component Unit revenues for the year total \$227,918.

See Independent Auditor's Report

NEW MEXICO JUNIOR COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Revenues

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011 Component Unit</u>
Student tuition and fees, net	\$ 3,782,268	\$ 3,057,337	\$ 543
Federal grants and contracts	3,383,022	7,022,351	-
State and other grants and contracts	829,508	294,395	-
Auxiliary enterprises	3,041,621	3,644,391	-
Gifts, bequests and endowments	-	-	163,963
Royalties	-	-	63,412
Total operating revenues	<u>\$ 11,036,419</u>	<u>\$ 14,018,474</u>	<u>\$ 227,918</u>

Operating Expenses

The following table summarizes the College's operating expenses of \$35,063,319 for the fiscal year ended June 30, 2011, as compared to the operating expenses of \$32,942,492 in 2010. The increase in operating expenses is attributed to the increase in student and facility operation costs. Component Unit expenses for the year were \$163,579.

Operating Expenses

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011 Component Unit</u>
Instruction	9,015,026	\$ 8,874,123	\$ -
Academic support	2,286,697	2,486,537	-
Student services	2,692,727	2,813,932	-
Institutional support	3,289,193	3,060,267	163,579
Operations and maintenance	3,362,725	2,930,904	-
Depreciation	3,170,479	1,338,557	-
Capital outlay	1,076,437	1,523,229	-
Student aid	6,723,114	6,466,932	-
Private grants	15,766		-
Student activities	231,939	211,533	-
Intercollegiate athletics	1,123,905	1,110,059	-
Auxiliary enterprises	2,075,311	2,126,419	-
Total operating expenses	<u>\$ 35,063,319</u>	<u>\$ 32,942,492</u>	<u>\$ 163,579</u>

Non-Operating Revenues (Expenses)

The following table summarizes the College's non-operating revenues (expenses) of \$25,127,213 for the fiscal year ended June 30, 2011. Local appropriations continue to remain strong although there was a decrease in FY 11 as compared to FY 10. There was a small decrease in State support from FY 10 to FY 11. Local appropriations were significantly higher than the budget level approved by the governing board. Federal Pell was moved to Non-operating revenue for the FY 11 audit. Federal Pell Grants were presented as non-operating revenues as prescribed in the GASB *Comprehensive Implementation Guide*. Other than this, there were no significant or unexpected changes in the other areas of non-operating revenues and expenses.

See Independent Auditor's Report

NEW MEXICO JUNIOR COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-operating Revenues (Expenses)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011 Component Unit</u>
Property taxes	\$ 5,413,435	\$ 5,451,846	\$ -
Oil and gas taxes	9,581,640	10,074,698	-
Federal pell grants	3,544,618	-	-
State appropriations, non-capital	6,672,580	8,364,533	-
Investment income	30,669	32,491	779,578
Interest on capital related debt	(134,597)	(98,080)	-
Gain on disposal of assets	18,868	-	-
	<u> </u>	<u> </u>	<u> </u>
Total non-operating revenues and expenses	<u>\$ 25,127,213</u>	<u>\$ 23,825,488</u>	<u>\$ 779,578</u>

Increase in net assets

The following table summarizes the College's increase in net assets of \$9,939,274 for June 30, 2010 compared to the increase in net assets of \$2,711,341 for June 30, 2011.

Increase in Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011 Component Unit</u>
Income before capital appropriations	\$ 1,100,313	\$ 4,901,470	\$ 843,917
Capital appropriations	<u>1,611,028</u>	<u>5,037,804</u>	<u>-</u>
Increase (decrease) in Net Assets	2,711,341	9,939,274	843,917
Net assets - beginning of year	<u>73,613,487</u>	<u>63,674,213</u>	<u>4,668,322</u>
Net assets - end of year	<u>\$ 76,324,828</u>	<u>\$ 73,613,487</u>	<u>\$ 5,512,239</u>

See Independent Auditor's Report

NEW MEXICO JUNIOR COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

At June 30, 2011, the College had \$62,759,429 invested in capital assets as compared to \$59,366,390 at June 30, 2010.

Capital Assets, Net

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u> <u>Component Unit</u>
Land Improvements	\$ 2,262,703	\$ 2,530,753	\$ -
Buildings	42,572,748	37,935,253	-
Infrastructure	8,546,569	3,184,087	-
Software	290,186	389,684	-
Library books	689,295	680,588	-
Furniture and equipment	3,560,270	3,866,160	-
Automobiles	222,463	173,137	-
Construction in progress	4,406,932	10,398,465	-
Land	<u>208,263</u>	<u>208,263</u>	<u>-</u>
Net capital assets	<u>\$ 62,759,429</u>	<u>\$ 59,366,390</u>	<u>\$ -</u>

Major capital expenditures during the 2011 fiscal year include the last part of the Central Plant remodel and expansion, the completion of the Pannell Library remodel, the final expenditures of the remodel of the area in Caster Activity Center that was previously occupied by the Lea County Cowboy Hall of Fame, and various remodel projects.

The College disbursed a debt service payment on the principal of the 2005 Revenue Bonds. The payment was for \$686,637 in accordance with the amortization schedule and the outstanding balance of the revenue bonds at June 30, 2011 was \$2,901,437.

Budget Comparison

The significant variation between the original budget and the final budget is in the area of State Funding for capital projects. The original budget included all of the available funding from the State for capital projects. The final budget reflects the anticipated draws on the available State funding through the end of the fiscal year. The capital outlay was increased from the original budget to the final budget to reflect the Board approved designation of funds for capital projects. The other significant increase in the original budget to the final budget was in Local Government Appropriations. The Board and Management are very conservative in the original budgeting of Local Government Appropriations of oil and gas mill levy revenue. The increase in the final budget reflects only what is received over the budget with three months remaining in the fiscal year.

The impact of the variances in State Funding and Local Government Appropriations on future services or liquidity is positive. The State Funding for capital projects is available for use in future fiscal years for new and ongoing projects. The capital outlay will also be available for use in future years for new and ongoing projects to maintain and improve facilities and services for students. The conservative approach to the Local Government Appropriations by the Board and Management will have a positive effect on future services and liquidity. The conservative approach minimizes a negative affect on the budget by a drop in revenue from oil and gas, and provides means to maintain and upgrade the campus facilities and infrastructure when oil and gas revenue is high.

See Independent Auditor's Report

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Economic Outlook

New Mexico Junior College serves as a community college center for the communities of southeastern New Mexico and portions of West Texas. The College is largely supported by the local mill levy in Lea County and the ongoing financial and political support from the State of New Mexico. As has been the case for the past several years, the support from the State has declined. Current indications from the State Legislative Finance Committee are that the State funding appears to be more stable for the coming fiscal years. The local economy has been strong and from all forecast, the economic outlook for Lea County will remain strong to steady. The Oil & Gas industry is still the driving economic factor in Lea County. Because of new technology in the industry there has been revitalization and the extension of the projected life of some oil fields in Lea County. Lea County property assessment continues to increase and construction is steady in the county. Overall, the economic outlook for New Mexico Junior College for the coming year appears to be stable.

See Independent Auditor's Report

NEW MEXICO JUNIOR COLLEGE

STATEMENTS OF NET ASSETS

June 30, 2011

ASSETS	Primary Government	Component Unit
Current assets:		
Cash and cash equivalents	\$ 3,427,387	\$ 638,019
Short-term investments	11,589,592	-
Accounts receivable, net	3,449,268	7,298
Inventory	331,686	-
Prepaid expenses	641,440	-
Total current assets	19,439,373	645,317
Non-current assets:		
Restricted cash and cash equivalents	538,831	-
Investments	-	4,867,612
Capital assets, net	62,759,429	-
Total non-current assets	63,298,260	4,867,612
Total assets	\$ 82,737,633	\$ 5,512,929
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 556,386	\$ 690
Accrued expenses	986,201	-
Interest payable	25,811	-
Deferred revenue	1,702,709	-
Compensated absences	101,000	-
Current maturity of bonds payable	204,175	-
Total current liabilities	3,576,282	690
Non-current liabilities:		
Compensated absences	139,261	-
Bonds payable	2,697,262	-
Total non-current liabilities	2,836,523	-
Total liabilities	6,412,805	690
Net assets:		
Invested in capital assets, net of related debt	59,857,992	-
Restricted for:		
Nonexpendable endowments	-	4,198,127
Expendable grants and contributions	-	1,220,513
Expendable future debt service requirements	538,831	-
Unrestricted	15,928,005	93,599
Total net assets	76,324,828	5,512,239
	\$ 82,737,633	\$ 5,512,929

The accompanying notes are an integral part of these financial statements

NEW MEXICO JUNIOR COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

June 30, 2011

	Primary Government	Component Unit
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$1,498,206	\$ 3,782,268	\$ 543
Federal grants and contracts	3,383,022	-
State and other grants and contracts	829,508	-
Auxiliary enterprises	3,041,621	-
Gifts, bequests and endowments	-	163,963
Royalties	-	63,412
Total operating revenues	11,036,419	227,918
Operating expenses:		
Instruction	9,015,026	-
Academic support	2,286,697	-
Student services	2,692,727	-
Institutional support	3,289,193	163,579
Operations and maintenance	3,362,725	-
Depreciation	3,170,479	-
Capital outlay	1,076,437	-
Student aid	6,723,114	-
Private grants	15,766	-
Student activities	231,939	-
Intercollegiate athletics	1,123,905	-
Auxiliary enterprise expenses	2,075,311	-
Total operating expenses	35,063,319	163,579
Operating income (loss)	(24,026,900)	64,339
Non-operating revenues (expenses):		
Property taxes	5,413,435	-
Oil and gas taxes	9,581,640	-
Federal pell grants	3,544,618	-
State appropriations, non-capital	6,672,580	-
Investment income (loss)	30,669	779,578
Interest on capital related debt	(134,597)	-
Gain on disposal of assets	18,868	-
Net non-operating revenues (expenses)	25,127,213	779,578
Income (loss) before capital appropriations	1,100,313	843,917
State appropriations, capital	1,611,028	-
Change in net assets	2,711,341	843,917
Net assets beginning of year	73,613,487	4,668,322
Net assets, end of year	\$ 76,324,828	\$ 5,512,239

The accompanying notes are an integral part of these financial statements

NEW MEXICO JUNIOR COLLEGE**STATEMENT OF CASH FLOWS**

June 30, 2011

	Primary Government
Cash flows from operating activities:	
Tuition and fees	\$ 4,089,410
Federal and state grants and contracts	4,212,530
Auxiliary enterprise charges	3,041,621
Payments to employees and for employee benefits	(17,111,000)
Disbursement of net aid to students	(6,723,114)
Payments to suppliers	(7,939,256)
Net cash (used) for operating activities	<u>(20,429,809)</u>
Cash flows from noncapital financing activities:	
State appropriations	6,672,580
Federal pell grants	3,544,618
Property taxes	5,480,819
Oil and gas taxes	9,581,640
Net cash provided by noncapital financing activities	<u>25,279,657</u>
Cash flows from capital financing activities:	
Principal payments on long term debt	(686,637)
Proceeds from the sale of capital assets	18,868
Interest paid	(108,786)
Capital appropriations	1,611,028
Purchase of capital assets	(6,563,518)
Net cash provided by capital financing activities	<u>(5,729,045)</u>
Cash flows from investing activities:	
Interest income	30,669
Net cash provided by investing activities	<u>30,669</u>
Net decrease in cash and cash equivalents	(848,528)
Cash and cash equivalents - beginning of year	<u>16,404,338</u>
Cash and cash equivalents	3,427,387
Short-term investments	11,589,592
Restricted cash and cash equivalents	538,831
Cash and cash equivalents - end of year	<u>\$ 15,555,810</u>
Reconciliation of net operating loss to net cash used for operating activities:	(24,026,900)
Depreciation expense	3,170,479
Changes in assets and liabilities:	
Accrued expenses	374,755
Deferred expenses	502,207
Inventory	62,378
Deferred revenues	591,786
Prepaid expenses	(391,428)
Compensated absences	16,078
Accounts payable	(444,520)
Accounts receivable, net	(284,644)
Net cash (used) for operating activities	<u>\$ (20,429,809)</u>

The accompanying notes are an integral part of these financial statements

NEW MEXICO JUNIOR COLLEGE

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2011

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 275,547
Accounts receivable	<u>477</u>
Total assets	<u><u>\$ 276,024</u></u>
LIABILITIES	
Accounts payable	\$ 2,232
Due to student organizations	<u>273,792</u>
Total liabilities	<u><u>\$ 276,024</u></u>

The accompanying notes are an integral part of these financial statements

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

New Mexico Junior College (the College) was established in 1965, in accordance with laws of the State of New Mexico to serve the needs of the residents of Lea County, New Mexico. The College has grown into a comprehensive community college. New Mexico Junior College (NMJC) offers a variety of educational opportunities and services to meet needs in the lifelong process of personal and professional development. NMJC offers programs for students to develop basic academic skills for successful post-secondary study; courses and programs that prepare individuals for employment, career updating, and job advancement; the first two years of study for those seeking transfer to a four-year college or university; public service activities, including workshops, seminars, forums, and cultural arts programs; comprehensive student development services which provide student support and assistance; and courses for personal growth and cultural enrichment. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and recordkeeping requirements of these entities, it is not a component unit of any other governmental entity.

In 1970, the New Mexico Junior College Foundation (the Foundation) was established to advance educational excellence at the College. The Foundation is a component unit of the College discretely presented and reported upon as a part of the basic financial statements of the College. The Foundation engages in fund raising to support the College's academic programs, scholarships, building funds and faculty/staff development. The Foundation coordinates all private capital fund raising for the College, including fund solicitations, gift acceptance, acknowledgements and asset management.

2. Financial Statement Presentation

The accounting and reporting policies of the College reflected in the accompanying financial statements conform to accounting principles generally acceptable in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standards*. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements, and the College has opted not to incorporate Financial Accounting Standards Board (FASB) FASB Accounting Standards Codification (ASC) on accounting procedures issued on or before November 30, 1989.

As a public institution, the College is considered a special purpose government under the provisions of GASB Statement No. 35. The College records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged in business-type activities. This model allows all financial information for the College to be reported in a single column in each of the financial statements, accompanied by the financial information for the Foundation. The effect of internal activity between funds or groups has been eliminated from these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

3. Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements present the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the New Mexico Junior College and its discretely presented component unit.

In evaluating how to define the government for financial reporting purposes, the College has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. Organizations that are legally separate tax-exempt entities that meet *all* of the criteria should be discretely presented as component units.

- A. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- B. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- C. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The New Mexico Junior College Foundation (the Foundation) is presented in the financial statements of the College due to the nature and significance of its relationship with the College. The Foundation is discretely presented to allow the financial statement users to distinguish between the College and the Foundation.

4. Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated. The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

The Fiduciary Funds are used to account for assets held by the College in a capacity as an agent for various student organizations and outside parties. Fiduciary Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

5. Management's Estimates and Assumptions

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. The more significant estimates included in the financial statements include allowances for uncollectible accounts and the estimated useful lives of capital assets.

6. Cash and Cash Equivalents and Statement of Cash Flows

For purposes of the statement of cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Immediate cash needs are met with resources deposited at the College's bank. Cash resources not used are swept nightly and invested overnight. Cash resources not needed to meet immediate needs are invested with the New Mexico State Treasurer's Office short-term investment pool (LGIP). Amounts invested with the State Treasurer's LGIP are readily available to the College when needed and are recorded at cost which approximates fair value. Amounts in the State Treasurer's Reserve Contingency Fund are not currently available to the College and are recorded at their cost value less the estimated loss as provided by the State Treasurer's office. Further disclosure regarding the Reserve Contingency Fund is discussed in Note 2 to the Financial Statements.

Cash and cash equivalents include cash on hand, cash in banks, securities subject to overnight sweep repurchase agreements, and certificates of deposit with various financial institutions. At June 30, 2011, the amount of cash and cash equivalents reported on the financial statements differs from the amount on deposit with the various financial institutions because of transactions in transit and outstanding checks.

7. Receivables

Receivables consist primarily of amounts due from federal and state governmental entities for grants and contracts, local government entities for unremitted district mill levy collections, and student and third-party payers for student tuition and fees. The allowance for doubtful accounts is maintained at a level which, in the administration's judgment, is sufficient to provide for possible losses in the collection of these accounts.

8. Deferred Revenue and Expenditures

Deferred revenue relates to student tuition, fees, and bookstore sales received during the current physical period for classes to be held in the following period. Similarly, deferred expenditures represent scholarship funds expended in the current period relating to the following period. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property tax receivables are recognized in the period for which the taxes are levied, net of estimated refunds and uncollectible amounts.

9. Inventories

Inventories consist of items held for resale or exchange within the College. The bookstore inventory within the current unrestricted fund is valued at cost, which is lower than market, based on average cost method. The cost method is applied on a basis consistent with prior year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

10. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings costing \$100,000 or more, and infrastructure and land improvements costing \$50,000 or more and 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 is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally 40 years for buildings, 20 years for infrastructure and land improvements, 5 years for library books, 5 years for automobiles, 5 to 7 years for equipment and 5 to 10 years for externally purchased software. Information technology equipment including software is being capitalized in accordance with 2.20.1.9(C)(5) NMAC [9-30-99, recompiled 10/01/01].

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

11. Compensated Absences

Accumulated unpaid vacation is accrued when incurred in the current unrestricted fund. Employees entitled to earn vacation may accrue five, ten, or fifteen days vacation each year. According to College policy, conversion of sick leave accrual to cash is not permitted and in accordance with the provisions of Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick leave.

12. Restricted Assets

Restricted assets are assets which have third-party limitations on their use. The College's Foundation endowment consists of funds established for tuition assistance and institutional support. As required by generally accepted accounting principles, restricted assets associated with endowment funds, including funds designated by the governing body to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's endowment policy requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the donor restricted endowment fund that is not classified in permanently restricted assets is classified as temporarily restricted assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with applicable State laws and internal policies.

13. Revenue

Operating revenue includes activities that have the characteristics of an exchange transaction, such as a) student tuition and fees, net of scholarship discounts and allowances; b) sales and services; and c) contracts and grants.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as a) appropriations, b) taxes, c) gifts, and d) investment income. These revenue streams are recognized under GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*. Revenues are recognized when all applicable eligibility requirements have been met.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

14. *Economic dependency*

The College depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the College is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

The College receives a significant portion of their revenue from property tax revenue and oil and gas tax revenue. Property tax revenue was \$5,413,435 or 15% of total revenue in fiscal year 2011. Oil and gas production and equipment tax revenue fluctuates significantly upon demand and was \$9,581,640 or 26% of total revenue in fiscal year 2011.

15. *Net Assets*

The College's net assets are classified into the following net asset categories:

Invested in capital assets, net of related debt. Capital assets, net of accumulated depreciation, amortization, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted:

Nonexpendable: Net assets subject to externally imposed conditions that the College retain them in perpetuity. Net assets in this category consist of endowments held by the Foundation.

Expendable: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the College or the passage of time.

Unrestricted: All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the College. This requirement limits the area of operations for which expenditures of net assets may be made, and require that unrestricted net assets be designated to support future operations in these areas. College housing programs are a primary example of operations that have unrestricted net assets with designated uses.

The College has adopted a policy of utilizing restricted – expendable funds, when available, prior to unrestricted funds.

16. *Revenue Recognition for Derived Tax Revenues*

It is the policy of the College to recognize nonexchange revenue for which there are time requirements in the period in which those time requirements are met, regardless of whether the revenues are due or whether an enforceable legal claim exists. If no time requirements are specified in enabling legislation, revenues are recognized when the College has an enforceable legal claim to the assets or when they are received, whatever occurs first.

17. *Budgetary Process*

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

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

17. Budgetary Process (continued)

To amend the budget, the College requires the following order of approval: (1) College President, (2) College Board Members, (3) Commission on Higher Education, and (4) State Department of Finance and Administration.

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

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

Budgets are adopted on a basis of accounting that is not in accordance with accounting principles generally accepted in the United States of America. The purpose of the Budget Comparison is to reconcile the change in net assets as reported on a budgetary basis to the change in net assets as reported using generally accepted accounting principles. The reporting of actuals (budgetary basis) is a non-GAAP accounting method that excludes depreciation expense and includes the cost of capital equipment purchases.

18. Interfund borrowing

Interfund borrowing is recorded in each fund as due to/due from other funds. Such borrowing is temporary in nature and is authorized in advance by the board or administrative action. The borrowing provides needed working capital. No interest is charged on interfund loans.

19. Income Tax Status

The College is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations*. The College had no unrelated business income tax liability for the year ended June 30, 2011.

The Foundation is exempt from federal income taxes under Internal Revenue Code section 501(c)(3).

20. Change in Estimate

During the year ended June 30, 2011, the College made changes in useful lives and salvage values of capital assets. As a result, a change of estimate adjustment has been recorded to adjust capital asset balances. The effect of the entry was an increase in accumulated depreciation by \$37,989.

21. Property Tax Calendar

Property Taxes are levied on November 1 based on the assessed value of property listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after May 10th are considered delinquent. The taxes attach as an enforceable lien on property as of January 1st.

NOTE 2 – DEPOSITS AND INVESTMENTS

State statutes authorize the investment of funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts and United States Government obligations. Management of the College is not aware of any investments that did not properly follow State investment requirements as of June 30, 2011.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the College. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state were insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts at the all FDIC-insured depository institutions. The separate coverage on non-interest bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2011 accounts held by an official custodian for a government unit are insured as follows:

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts

Through July 20, 2011, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2011, \$30,671 of the College's bank balance of \$2,998,111 was subject to custodial credit risk. This entire amount was uninsured and uncollateralized at June 30, 2011.

Section 6-10-17, New Mexico Statutes Annotated, 1978 Compilation requires that all depositories provide collateral equal to at least one-half of the amount of public monies on deposit that are uninsured by FDIC limits. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. All depositories had collateral exceeding the amount required by law.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS, (continued)

	Wells Fargo Bank	Western Commerce Bank	Lea County Bank	Bank of America	Total
Total amount of deposits	\$ 2,002,587	\$ 25,073	\$ 32,446	\$ 938,005	\$ 2,998,111
Deposit accounts covered by the "Dodd-Frank Insurance Provision" FDIC coverage	2,002,587	25,073	32,446	657,334	2,717,440
	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>250,000</u>
Total uninsured public funds	-	-	-	30,671	30,671
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the College's name	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,671</u>	<u>\$ 30,671</u>
Collateral requirement (50% of uninsured public funds)	-	-	-	15,336	-
Pledged security	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Over (under) collateralization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,336)</u>	<u>\$ -</u>

The collateral pledged is listed on Schedule III of this report.

Investments

State statute authorizes the College to invest in direct obligations of the United States or securities that are backed by the full faith and credit of the United States Government or agencies guaranteed by the U.S. Government. State statute also authorizes the College to invest in bonds or negotiable securities of the U.S., the State of New Mexico, or any county, municipality or school district which has a taxable valuation of real property for the last preceding year of at least one million dollars and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding.

State law limits investment in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The College has no investment policy that would further limit its investment choices.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS, (continued)

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The New Mexico Junior College does not have a policy to manage the credit risk of its investments. The overnight repurchase is the only investment subject to custodial credit risk, as the other investments are external pools. As of June 30, 2011, all of the deposits in the overnight repurchase account were subject to custodial credit risk, however the entire amount was collateralized by collateral held by the pledging bank's trust department, not in the College's name.

Custodial Credit Risk - Investments

	Wells Fargo Bank
Total amount of deposits	\$ 1,010,350
Deposit accounts covered by the "Dodd-Frank Insurance Provision" FDIC coverage	- -
Total uninsured public funds	1,010,350
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the College's name	1,010,350
Uninsured and uncollateralized	\$ -
Collateral requirement (102% of uninsured public funds)	1,030,557
Pledged security	1,030,557
Over collateralization	\$ -

The New MexiGROW Local Government Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) through 6-10-10(P) and Section 6-10-10.1(A) and (E), NMSA 1978. The pool does not have unit shares.

Per Section 6-10-10.1(F), NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

As of June 30, 2011, the College's investment in the State Treasurer Local Government Investment Pool was rated as AAAM by Standard & Poor's and the investment in the State Treasurer Local Government Investment Pool – Reserve Contingency Fund was unrated.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS, (continued)

The College's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Quality and Interest Rate Risk

	Rating	Fair Value	Weighted Average Maturity
New MexiGROW LGIP	AAAm	\$ 11,589,592	36 days
Reserve Contingency Fund	Unrated	35,408	Does not earn interest
New Mexico Finance Authority	Not rated	359,437	Less than 90 days
State Treasurer's Debt Service	Not rated	179,394	Less than 90 days

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the College's or the Foundation's investment in a single type of security. The College and the Foundation do not have a formal policy to address concentration of credit risk. The College did not have any investments at June 30, 2011, other than investments in the State Treasurer's *New MexiGROW LGIP*. Therefore, they are not subject to any concentration of credit risk.

The following represents the concentration of credit risk regarding the investments of the College at June 30, 2011:

Investment	Market Value	Percent of Investment
New MexiGROW LGIP	\$ 11,589,592	95.3%
Reserve contingency fund	35,408	0.3%
New Mexico Finance Authority	359,437	3.0%
State Treasurer's Debt Service	179,394	1.5%
Total investments	<u>\$ 12,163,831</u>	<u>100.0%</u>

The following represents the concentration of credit risk regarding the investments of the Foundation at June 30, 2011:

Investment	Market Value	Percent of Foundation's Investment
Equities	\$ 2,986,905	61.4%
Mutual funds	1,861,124	38.2%
Royalty interest	19,583	0.4%
Total Foundation investments	<u>\$ 4,867,612</u>	<u>100.0%</u>

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS, (continued)

Beginning Cash and Cash Equivalents – Statement of Cash Flows

The College considers all instruments with an original maturity of 90 days or less to be cash equivalents for the purpose of presenting the statement of cash flows. Accordingly, beginning cash and cash equivalents as presented on the statement of cash flows has been adjusted to reflect the \$11,589,592 invested with the *New MexiGROW* LGIP as cash equivalents.

Reconciliation of Deposits and Investments to the Statement of Net Assets and Statement of Fiduciary Assets and Liabilities

Deposits	\$	2,998,111
US Government securities underlying an overnight repurchase agreement		1,010,350
<i>New MexiGROW</i> LGIP		11,589,592
New Mexico Finance Authority		359,437
State Treasurer's Debt Service		<u>179,394</u>
Total deposits and investments		16,136,884
Petty cash		4,236
Subtract reconciling items		<u>(309,763)</u>
Net deposits and investments	\$	<u>15,831,357</u>
Statement of Net Assets:		
Cash and cash equivalents	\$	3,427,387
Short-term investments		11,589,592
Restricted cash and cash equivalents		<u>538,831</u>
Cash and cash equivalents, end of year per statement of cash flows		15,555,810
Statement of Fiduciary Assets and Liabilities:		
Cash and cash equivalents		<u>275,547</u>
Net deposits and investments	\$	<u>15,831,357</u>

Restricted cash and cash equivalents represent amounts held by the trustee for the System Revenue Bonds Series July 1, 2005 for the bond project and debt service reserve funds.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – ACCOUNTS RECEIVABLE AND ACCRUED EXPENSES

The College's accounts receivable at June 30, 2011 represent revenues earned from student tuition and fees, loans, advances to students, local tax levy, federal government grants and contracts, and State of New Mexico agencies that include pass through federal and state grants. All amounts are expected to be collected within sixty days after year-end. A schedule of receivables and allowance for uncollectible accounts is as follows:

Property and oil and gas taxes	\$	237,242
General receivables		373,800
Student receivables		1,169,909
Accounts receivable - year end		<u>1,834,723</u>
		3,615,674
Less allowance for uncollectible accounts		<u>(166,406)</u>
Net total accounts receivable	\$	<u><u>3,449,268</u></u>

The College's accrued expenses at June 30, 2011 are as follows:

Payroll	\$	433,842
Payroll taxes and related liabilities		<u>552,359</u>
Total accrued expenses	\$	<u><u>986,201</u></u>

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

The following table summarizes the changes in capital assets during the fiscal year ended June 30, 2011:

	June 30, 2010	Additions	Deletions	June 30, 2011
Assets not being depreciated:				
Construction in progress	\$ 10,398,465	5,109,426	11,100,959	\$ 4,406,932
Land	208,263	-	-	208,263
	<u>10,606,728</u>	<u>5,109,426</u>	<u>11,100,959</u>	<u>4,615,195</u>
Assets being depreciated:				
Land improvements	4,683,972	-	-	4,683,972
Buildings	53,222,060	5,817,436	-	59,039,496
Infrastructure	4,180,614	5,540,114	-	9,720,728
Software	932,406	10,778	-	943,184
Library books	2,704,790	209,754	-	2,914,544
Furniture and equipment	10,726,259	824,764	476,357	11,074,666
Automobiles	1,154,248	152,214	-	1,306,462
	<u>77,604,349</u>	<u>12,555,060</u>	<u>476,357</u>	<u>89,683,052</u>
Totals	<u>88,211,077</u>	<u>17,664,486</u>	<u>11,577,316</u>	<u>94,298,247</u>
Less accumulated depreciation:				
Land improvements	2,153,219	268,050	-	2,421,269
Buildings	15,286,807	1,179,941	-	16,466,748
Infrastructure	996,527	177,632	-	1,174,159
Software	542,722	110,276	-	652,998
Library books	2,024,202	201,047	-	2,225,249
Furniture and equipment	6,860,108	1,130,645	476,357	7,514,396
Automobiles	981,111	102,888	-	1,083,999
	<u>28,844,696</u>	<u>3,170,479</u>	<u>476,357</u>	<u>31,538,818</u>
Net capital assets	<u>\$ 59,366,381</u>	<u>\$ 14,494,007</u>	<u>\$ 11,100,959</u>	<u>\$ 62,759,429</u>

During the year ended June 30, 2011, the College made changes in lives and salvage values of capital assets, as well as changes in start date methodology used in the calculation of depreciation. As a result, a change of estimate adjustment has been recorded to adjust capital asset depreciation balances. The effect of the change in estimate was an increase in accumulated depreciation in the amount of \$37,989.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

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

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

Funding Policy. The Retiree Health Care Act (10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer’s RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (10-7C-13 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	1.834%	.917%
FY13	2.000%	1.000%

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN, (continued)

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The New Mexico Junior College's contributions to the RHCA for the years ended June 30, 2011, 2010, and 2009 were \$201,113, \$167,670, and \$153,111, respectively, which equal the required contribution for each year.

NOTE 6: PENSION PLAN - EDUCATION RETIREMENT BOARD

Plan Description. Substantially all of the College's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing, multiple employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy. Effective July 1, 2009 through June 30, 2011, plan members were required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually were required to contribute 9.4% of their gross salary. The College was required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 10.9% of the gross salary of employees earning more than \$20,000 annually. Effective July 1, 2011 plan members are required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually are required to contribute 11.15% of their gross salary. The College is required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 9.15% of the gross covered salary for employees earning \$20,000 or less, and 9.15% of the gross covered salary of employees earning more than \$20,000 annually. The contribution requirements of plan members and the College are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The College's contributions to ERB for the fiscal years ending June 30, 2011, 2010, and 2009, were \$1,225,873, \$1,311,119, and \$1,319,778, respectively, which equal the amount of the required contributions for each fiscal year.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7– GROUP INSURANCE PROGRAM

The College participates in the State of New Mexico Public Schools Insurance Authority group health insurance plan. The Authority's two primary insurance underwriters are Blue Cross/Blue Shield of New Mexico and Lovelace HMO. The plan covers all full-time employees of the College who choose to participate in the plan. The College pays premiums under the plan and employees contribute based on percentage splits established by 10-7-4 NMSA 1978 for public employees.

NOTE 8– OPERATING LEASES

The College has entered into various operating leases for equipment. The terms of all leases are one year or less. The College expects that in the normal course of business, such leases will continue to be required.

NOTE 9 – RISK MANAGEMENT

The College currently is party to various litigation and other claims in the ordinary course of business. The College has property and liability insurance coverage with Coregis Insurance Company and workers compensation insurance coverage with Mountain States Mutual. The College believes that the outcome of all pending and threatened litigation will not have a material adverse effect on the financial position or operations of the College.

Federal grants received by the College are subject to audit by the grantors. In the event of noncompliance with funding requirements, grants may be required to be refunded to the grantor. College management estimates that such refunds, if any, will not be significant.

NOTE 10 – JOINT POWERS AGREEMENTS

The College has established a joint powers agreement with Lea County, Hobbs Municipal School District, City of Hobbs, City of Lovington, Eunice Municipal School District, Tatum Municipal School District and Jal Municipal School District for the purpose of enabling the parties involved to benefit from substantial savings in the procurement of similar services, construction or tangible personal property. The agreement became effective November 17, 2003, and any party to the agreement can terminate participation by providing thirty days written notice. Any of the participating agencies may act as the Lead Agency whereby that agency shall contact the remaining participating agencies to determine if they are willing to participate in a bid or proposal for quote to be prepared by the Lead Agency.

The College revised a joint powers agreement on February 19, 2004 to include Eastern New Mexico University-Portales as a member of the Lea County Distance Education Consortium, Inc. (Consortium). The group consists of every public school system in Lea County, New Mexico, together with New Mexico Junior College and Eastern New Mexico University-Portales. The purpose of the Consortium is to purchase a two-way interactive television network to provide educational services between each of the members. This agreement shall continue as mutually agreeable by all parties.

The College entered into a joint powers agreement on April 20, 2010 with a group consisting of Santa Fe Community College, Northern New Mexico College and New Mexico Institute of Mining and Technology for the operation of the New Mexico Education Services Center (Center). The purpose of the Center to provide operation of a facility where equipment and administrative software is supported for the benefit of the members, and for improvement of education experiences of students, working conditions of employees and services offered by members.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NEW MEXICO JUNIOR COLLEGE FOUNDATION (COMPONENT UNIT)

Nature of Operations

The New Mexico Junior College Foundation (the Foundation) is a New Mexico nonprofit corporation, organized to solicit, receive, hold, invest and transfer funds for the benefit of the College.

Basis of Accounting

The Foundation's financial statements have been prepared on the accrual basis of accounting. The Foundation follows Financial Accounting Standards Board (FASB) pronouncements. Revenues and expenses are classified for reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net assets categories follows:

Unrestricted net assets – include the revenues and expenses associated with the general and administrative functions of the Foundation. It also includes losses on the investments of donor-restricted endowment funds where market value of endowments are less than their historical costs.

Temporarily restricted net assets – presented in the Statement of Net Assets as restricted – expendable include contributions and gifts for which donor imposed restrictions have not been met and the ultimate use of the proceeds is not permanently restricted.

Permanently restricted net assets – presented in the Statement of Net Assets as restricted – nonexpendable include contributions, gifts and trusts which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for program operations.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings used for distributions are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Donor Restricted endowment disbursements of the net appreciation of investments are permitted in accordance with the Uniform Prudent Management of Institutional Funds Act [46-9A-1 to 46-9A-12 NMSA], except where a donor has specified otherwise. The investment committee of the Foundation and College management review the investment earnings designed to support distributions from the Endowment and to protect the purchasing power of the endowment principal. Distributions from the Endowment are made available to the College, which benefits from each individual endowment. The annual spending distribution is computed at the end of the year based on the interest received during the year. The Investment Committee of the Foundation and College management sets the annual distribution, which must be in accordance with agreement with endowment donors.

Tax Status

The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an organization which is not a private foundation.

Effective October 1, 2009, the Foundation adopted ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2011, the Foundation has no material uncertain tax positions to be accounted for in the financial statements under the new rules. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense and penalties expense, respectively.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NEW MEXICO JUNIOR COLLEGE FOUNDATION (COMPONENT UNIT), (continued)

Cash and Cash Equivalents

The Foundation maintains cash balances in a local bank and an investment company. These cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 for each location or by the Securities Investor Protection Corporation (SIPC) up to \$500,000 for each location. As of June 30, 2011, there were no balances in excess of insurance coverage.

	Merrill Lynch	Wells Fargo Bank	Total
Total amount of deposits	\$ 399,991	\$ 250,776	\$ 650,767
FDIC coverage	250,000	250,776	500,776
SIPC coverage	<u>149,991</u>	<u>-</u>	<u>149,991</u>
Total uninsured public funds	-	-	-
Collateralized by securities held by the pledging institution or its trust department or agent in other than the Foundation's name	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -
Pledged security	<u>-</u>	<u>-</u>	<u>-</u>
Over collateralization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NEW MEXICO JUNIOR COLLEGE FOUNDATION (COMPONENT UNIT), (continued)

Receivables

The Foundation considers receivables to be 100% collectible; therefore no allowance has been made for uncollectible amounts. The receivable at June 30, 2011 consists of the following:

Golf tournament fundraising pledges receivable	\$	6,949
Due from New Mexico Junior College		<u>349</u>
Total receivables	\$	<u>7,298</u>

Functional expenses

The Foundation had the following functional expenses during the year ended June 30, 2011:

Management and general expenses	\$	5,858
Program expenses		156,954
Fundraising expenses		<u>767</u>
Total functional expenses	\$	<u>163,579</u>

Institutional support

The Foundation provided the following institutional support to the College during the year ended June 30, 2011:

Scholarships	\$	98,456
Program Assistance		15,972
Awards		<u>4,000</u>
Total institutional support	\$	<u>118,428</u>

Related party

On July 7, 2003, the Foundation formed Lea County Student Housing, LLC (the LLC). The Foundation is the 100% member of the LLC which was formed for the purpose of building and renting dorm space to the College's students. The LLC has not had any activity since its formation.

NOTE 12 – CONSTRUCTION COMMITMENTS

The College has various construction projects as of June 30, 2011. The commitments related to these projects are approximately \$2.59 million as of June 30, 2011.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – COMPENSATED ABSENCES

The College had a liability for accrued vacations as of June 30, 2011 as follows:

Accrued vacation – beginning of year	\$ 224,183
Additions	336,371
Deletions	<u>(320,293)</u>
Accrued vacation – end of year	<u>\$ 240,261</u>

The College estimates that \$101,000 will be due within one year.

NOTE 14 – BONDS PAYABLE

The College issued revenue bonds to provide funds for the construction of student housing on the New Mexico Junior College campus. Bonds outstanding at June 30, 2011 consist of the following issues:

System Revenue Bonds
 Series: July 15, 2005
 Original Issue: \$4,589,369
 Principal: May 1
 Interest: May 1 and November 1
 Rates: 2.34% to 4.26%

The Series 2005 Bonds are special limited obligations of the College and the principal and interest on the Series 2005 Bonds are payable solely from the auxiliary activities revenue and from the local Mill Levy pledged to secure the payments. The bond agreement requires the creation and maintenance of a debt service reserve account and a capitalized interest account. The College is not aware of any instances where it is not in compliance with all significant requirements of the bond agreement.

The Series 2005 Bonds do not constitute a debt or pledge of the faith and credit of the College or the State, and the New Mexico Finance Authority, as the owner of the Series 2005 Bonds, has no right to have taxes levied for the payment of debt service.

Long-term liability for the year ended June 30, 2011 was as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Due within One Year</u>
System Revenue Bonds Series 7/15/2005	\$ 3,588,074	\$ -	\$ 686,637	\$ 2,901,437	\$ 204,175
	<u>\$ 3,588,074</u>	<u>\$ -</u>	<u>\$ 686,637</u>	<u>\$ 2,901,437</u>	<u>\$ 204,175</u>

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 – BONDS PAYABLE, (continued)

The annual debt service requirements to maturity, including principal and interest for System Revenue Bonds Series 2005 long-term debt as of June 30, 2011 are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 204,175	\$ 131,220	\$ 335,395
2013	211,624	124,300	335,924
2014	219,588	116,885	336,473
2015	228,061	108,980	337,041
2016	237,060	100,574	337,634
2017-2021	1,339,243	358,686	1,697,929
2021-2025	<u>461,686</u>	<u>45,720</u>	<u>507,406</u>
Totals	<u>\$ 2,901,437</u>	<u>\$ 986,365</u>	<u>\$ 3,887,802</u>

NOTE 15 – OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosure of certain information concerning individual funds including:

A. Deficit equity

The College does not maintain a deficit equity position.

B. Excess of expenditures over appropriations.

The College does not maintain any expenses in excess of budgetary authority

C. Designated cash appropriation in excess of available balances.

The College is not aware of any designated cash appropriations in excess of available balances.

NOTE 16 – SUBSEQUENT EVENT

LGIP Investment in the Reserve Primary Fund

The New Mexico State Treasurer's Office invested a portion of the LGIP in The Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, The Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen.

NEW MEXICO JUNIOR COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 – SUBSEQUENT EVENT, (continued)

On July 15, 2010, the Reserve announced that it will begin its seventh distribution to Primary Fund shareholders on or about July 16, 2010. The distribution, in the amount of approximately \$215 million, represents approximately 67% of the Fund's remaining asset value of \$323 million as of the close of business on July 9, 2010. Including this seventh distribution, \$50.7 billion of Fund assets as of the close of business on September 15, 2008, will have been returned to investors. There have been no additional distributions in the past year.

The New Mexico State Treasurer's Office believes that there may be additional distributions. Uncertainty remains, however, as to the timing and amounts of these distributions. Effective November 24, 2010, all remaining assets were transferred to a liquidating services agent, Crederian Fund Services LLC.

Subsequent to June 30, 2011, the College began construction on a new baseball field house and a rodeo arena. The College has also purchased a portable office and classroom building for transportation training and another portable class room for Oil & Gas training. The value of these commitments is \$2.59 million as of June 30, 2011 and is funded by oil and gas and property Mill Levy funds.

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 9, 2011, which is the date on which the financial statements were available to be issued.

NOTE 17 – SUBSEQUENT PRONOUNCEMENTS

In November 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangement*, effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The College is analyzing the effects that this pronouncement will have on their financial statements.

In November 2010, GASB Statement No. 61 *The Financial Reporting Entity: Omnibus*—an amendment of GASB Statements No. 14 and No. 34, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the College in upcoming years.

In December 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations,
2. Accounting Principles Board Opinions, and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The College is analyzing the effects that this pronouncement will have on their financial statements.

NOTE 17 – SUBSEQUENT PRONOUNCEMENTS, (continued)

In June 2011 the Governmental Accounting Standards Board (GASB) issued GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The College is analyzing the effects that this pronouncement will have on its financial statements.

In June 2011, GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53 Effective Date: The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the College in upcoming years.

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NEW MEXICO JUNIOR COLLEGE

UNRESTRICTED AND RESTRICTED - ALL OPERATIONS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Beginning fund balance</i>	\$ 8,339,276	\$ 13,338,886	\$ 13,690,690	\$ 351,804
<i>Unrestricted and restricted revenues:</i>				
State general fund appropriations	10,072,165	10,012,689	7,502,093	(2,510,596)
Federal revenue sources	6,210,363	7,227,166	6,927,640	(299,526)
Tuition and fees	3,523,000	3,964,858	3,782,268	(182,590)
Other	2,935,408	2,990,508	4,667,552	1,677,044
Local funding	9,404,278	14,100,000	14,995,075	895,075
Private grants	-	-	15,766	15,766
<i>Total unrestricted and restricted revenues</i>	<u>32,145,214</u>	<u>38,295,221</u>	<u>37,890,394</u>	<u>(404,827)</u>
<i>Unrestricted and restricted expenditures:</i>				
Instruction	8,901,679	9,669,636	8,954,533	715,103
Academic support	2,261,433	2,343,715	2,309,216	34,499
Student services	2,703,333	2,765,106	2,712,596	52,510
Institutional support	3,083,603	3,158,103	3,305,035	(146,932)
Operation and maintenance of plant	3,025,738	3,179,038	3,364,988	(185,950)
Student social and cultural activities	203,711	234,061	231,939	2,122
Auxiliary services	1,696,059	1,802,735	1,926,364	(123,629)
Intercollegiate athletics	974,729	1,123,579	1,123,905	(326)
Internal service	24,000	187,487	148,947	38,540
Capital outlay	9,134,802	10,083,166	7,263,224	2,819,942
Building renewal and replacement	807,401	807,401	376,738	430,663
Retirement of indebtedness	359,028	359,026	134,597	224,429
Student aid, grants and stipends	5,503,253	6,113,749	6,723,114	(609,365)
Private grants	-	-	15,766	(15,766)
<i>Total unrestricted and restricted expenditures</i>	<u>38,678,769</u>	<u>41,826,802</u>	<u>38,590,962</u>	<u>3,235,840</u>
<i>Net transfers</i>	<u>-</u>	<u>-</u>	<u>575,278</u>	<u>(575,278)</u>
<i>Change in fund balance (budgetary basis)</i>	<u>(6,533,555)</u>	<u>(3,531,581)</u>	<u>(125,290)</u>	<u>2,255,735</u>
<i>Ending fund balance</i>	<u>\$ 1,805,721</u>	<u>\$ 9,807,305</u>	<u>\$ 13,565,400</u>	<u>\$ 2,607,539</u>
<i>Change in net assets per statement of revenues, expenses and changes in net assets</i>			2,711,341	
Capital outlay expenditures capitalized			(6,563,520)	
Depreciation expense			3,170,479	
Gain on disposal of assets			(18,868)	
Net transfers			575,278	
<i>Financial statements change in net assets reconciled to budgetary basis</i>			<u>\$ (125,290)</u>	

See accompanying independent auditor's report

NEW MEXICO JUNIOR COLLEGE

**UNRESTRICTED - NON INSTRUCTION AND GENERAL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Beginning fund balance</i>	\$ 2,227,156	\$ 10,167,664	\$ 10,167,664	\$ -
<i>Unrestricted revenues:</i>				
Internal service dept	24,000	24,000	29,089	5,089
Sales and services	2,202,000	2,271,000	2,373,346	102,346
GOB Drawdowns	3,050,000	3,180,300	1,611,028	(1,569,272)
Athletics	428,100	414,200	270,236	(143,964)
<i>Total unrestricted revenues</i>	<u>5,704,100</u>	<u>5,889,500</u>	<u>4,283,699</u>	<u>(1,605,801)</u>
<i>Unrestricted expenditures:</i>				
Student social and cultural activities	-	-	-	-
Internal services	24,000	187,487	148,947	38,540
Student aid, grants and stipends	469,785	524,551	648,103	(123,552)
Auxiliary services	1,696,058	1,802,735	1,926,364	(123,629)
Intercollegiate athletics	974,729	1,123,579	1,123,905	(326)
Capital outlay	9,134,802	10,083,166	7,263,224	2,819,942
Building renewal and replacement	807,401	807,401	376,738	430,663
Retirement of indebtedness	359,028	359,026	134,597	224,429
<i>Total unrestricted expenditures</i>	<u>13,465,803</u>	<u>14,887,945</u>	<u>11,621,878</u>	<u>3,266,067</u>
<i>Net transfers</i>	<u>6,208,617</u>	<u>5,349,415</u>	<u>8,253,674</u>	<u>2,904,259</u>
<i>Change in fund balance (budgetary basis)</i>	<u>(1,553,086)</u>	<u>(3,649,030)</u>	<u>915,495</u>	<u>4,564,525</u>
<i>Ending fund balance</i>	<u>\$ 674,070</u>	<u>\$ 6,518,634</u>	<u>\$ 11,083,159</u>	<u>\$ 4,564,525</u>

See accompanying independent auditor's report

NEW MEXICO JUNIOR COLLEGE

**RESTRICTED - NON INSTRUCTION AND GENERAL
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
 For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Beginning fund balance</i>	\$ -	\$ -	\$ 351,804	\$ 351,804
<i>Restricted revenues:</i>				
Federal government contracts/grants	5,033,468	5,589,198	5,267,778	(321,420)
State government contracts/grants	203,711	234,061	540,655	306,594
<i>Total restricted revenues</i>	<u>5,237,179</u>	<u>5,823,259</u>	<u>5,808,433</u>	<u>(14,826)</u>
<i>Restricted expenditures:</i>				
Student social and cultural activities	203,711	234,061	231,939	2,122
Student aid, grants and stipends	5,033,468	5,589,198	6,075,011	(485,813)
<i>Total restricted expenditures</i>	<u>5,237,179</u>	<u>5,823,259</u>	<u>6,306,950</u>	<u>(483,691)</u>
<i>Net transfers</i>	-	-	146,713	146,713
<i>Change in fund balance (budgetary basis)</i>	-	-	(351,804)	(351,804)
<i>Ending fund balance</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report

NEW MEXICO JUNIOR COLLEGE

UNRESTRICTED - INSTRUCTION AND GENERAL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE

BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Beginning fund balance</i>	\$ 6,112,120	\$ 3,171,222	\$ 3,171,222	\$ -
<i>Unrestricted revenues:</i>				
Tuition and fees	3,523,000	3,964,858	3,782,268	(182,590)
State government appropriations	6,515,800	6,304,400	6,672,585	368,185
Local government appropriations	9,404,278	14,100,000	14,995,075	895,075
Federal grants and contracts	62,000	66,000	70,582	4,582
Other	281,308	281,308	383,853	102,545
<i>Total unrestricted revenues</i>	<u>19,786,386</u>	<u>24,716,566</u>	<u>25,904,363</u>	<u>1,187,797</u>
<i>Unrestricted expenditures:</i>				
Instruction	8,549,845	9,317,684	8,600,734	716,950
Academic support	2,235,263	2,317,545	2,286,697	30,848
Student services	1,681,893	1,750,937	1,693,839	57,098
Institutional support	3,067,761	3,142,261	3,289,193	(146,932)
Operation and maintenance of plant	3,023,475	2,721,275	2,907,225	(185,950)
<i>Total unrestricted expenditures</i>	<u>18,558,237</u>	<u>19,249,702</u>	<u>18,777,688</u>	<u>472,014</u>
<i>Net transfers</i>	<u>(6,208,617)</u>	<u>(5,349,415)</u>	<u>(7,815,656)</u>	<u>(2,466,241)</u>
<i>Change in fund balance (budgetary basis)</i>	<u>(4,980,468)</u>	<u>117,449</u>	<u>(688,981)</u>	<u>(806,430)</u>
<i>Ending fund balance</i>	<u>\$ 1,131,652</u>	<u>\$ 3,288,671</u>	<u>\$ 2,482,241</u>	<u>\$ (806,430)</u>

See accompanying independent auditor's report

NEW MEXICO JUNIOR COLLEGE

RESTRICTED - INSTRUCTION AND GENERAL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Beginning fund balance</i>	\$ -	\$ -	\$ -	\$ -
<i>Restricted revenues:</i>				
Federal government contracts/grants	1,114,895	1,571,968	1,589,280	17,312
State government contracts/grants	302,654	293,928	288,853	(5,075)
Private grants	-	-	15,766	15,766
<i>Total restricted revenues</i>	<u>1,417,549</u>	<u>1,865,896</u>	<u>1,893,899</u>	<u>28,003</u>
<i>Restricted expenditures:</i>				
Instruction	351,834	351,952	353,799	(1,847)
Academic support	26,170	26,170	22,519	3,651
Student services	1,021,440	1,014,169	1,018,757	(4,588)
Institutional support	15,842	15,842	15,842	-
Operations and maintenance of plant	2,263	457,763	457,763	-
Private grants	-	-	15,766	(15,766)
<i>Total restricted expenditures</i>	<u>1,417,549</u>	<u>1,865,896</u>	<u>1,884,446</u>	<u>(18,550)</u>
<i>Net transfers</i>	-	-	(9,453)	(9,453)
<i>Change in fund balance (budgetary basis)</i>	-	-	-	-
<i>Ending fund balance</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report

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NEW MEXICO JUNIOR COLLEGE**AGENCY FUNDS****SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES**

Year ended June 30, 2011

	June 30, 2010	Receipts	Disbursements	June 30, 2011
AMP Club	\$ 179	\$ -	\$ -	\$ 179
ASSET Student Recognition	3,454	1,350	3,633	1,171
Automotive Competition	726	1,861	2,480	107
Backpacking and Camping	71	-	-	71
Baseball Booster Club	167	12,793	2,134	10,826
Burke Poetry Contest	444	-	-	444
Campus Ambassadors	1,503	205	272	1,436
Cheerleaders	65	1,269	65	1,269
College Democrats	402	100	106	396
College Republicans	504	100	-	604
Cosmetology Students	29,617	24,346	27,276	26,687
Drama Club	5,513	649	4,273	1,888
Emergency Services Law Camp	4,656	589	2,642	2,602
Faculty Senate	-	3,764	3,161	603
Fellowship of Christian Athletes	521	250	67	704
FFA	3,406	-	-	3,406
Ford ASSET Helping Hand	-	500	-	500
Geology Club	605	-	-	605
GM ASEP Student Recognition	-	601	180	421
Golf Booster Club	9,849	13,262	12,033	11,078
Healthy Active Lifestyle Challenge	78	232	216	94
Job Fair (Career Connections)	299	-	-	299
Law Enforcement Guest Speakers	10,000	26,181	35,181	1,000
Men's Basketball	1,847	3,904	-	5,751
Moran Lecture Series	2,716	15,786	14,821	3,680
MU Alpha Theta	141	830	490	481
National Golf Tournament	-	430	430	-
Nature Trail Sculptures	-	5,300	5,300	-
NJCAA Division I Golf Association	43	-	-	43
NM Education Service Center	24,982	26,008	24,875	26,115
NMJC Band Club	3,638	2,450	800	5,288
NMJC Sensations	4,622	-	-	4,622
NMJC Skills USA-High School	4,719	7,746	4,399	8,066
NMJC Social Committee	3,982	5,390	3,027	6,345
Pam Bickerton Family Scholarship	3,878	-	2,487	1,391
Phi Beta Lambda-NMJC	310	100	45	365
Phi Theta Kappa	763	4,745	3,262	2,246
Prepaid Tuition Agreement	17,798	4,856	1,827	20,827
Public Safety Account	27	3	29	2
Rodeo Club	-	12,369	-	12,369
Rope Climbing and Rappelling Club	662	-	27	635
SBDC Program Services	11,444	2,085	-	13,529
Student Nurses Association	80	77	155	3
Student Senate	215	350	436	129
Student Senate Fundraiser	-	-	-	-

(continued)

See Independent Auditor's Report

	<u>June 30, 2010</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>June 30, 2011</u>
Student Services Support	4,837	-	4,837	-
Student Support Services - SSS	-	5,026	3,476	1,550
Support and Maintenance Council	4,778	1,069	1,135	4,712
Talent Search	-	10	-	10
Thunderbird Booster Club	-	12,910	12,377	533
Upward Bound	3,907	23,174	20,801	6,280
Uranium Fuel Cycle Conference	-	48,410	37,959	10,451
VICA Postsec Automotive	74	-	-	74
VICA Postsec Cosmetology	-	8	8	-
Western Heritage Archaeological	1,147	6,587	580	7,154
Western Heritage Donations	46,212	6,043	8,002	44,253
Western Heritage Museum Members	4,133	1,004	141	4,996
Western Heritage Museum Memorial	75	121	121	75
WHM Archaeological Memorial	-	2,175	-	2,175
WHM Centennial	-	500	-	500
WHM Special Events	2,483	9,606	11,493	596
Women's Basketball	1,069	13,200	356	13,912
Women's Cross Country	-	3,418	3,418	-
Total agency fund cash	<u>\$ 222,642</u>	<u>\$313,739</u>	<u>\$ 260,834</u>	<u>\$ 275,547</u>
Accounts Payable	2,540	2,284	2,592	2,232
Accounts Receivable	<u>10,000</u>	<u>407</u>	<u>9,930</u>	<u>477</u>
Due to student organizations	<u>\$ 215,182</u>	<u>\$311,862</u>	<u>\$ 268,172</u>	<u>\$ 273,792</u>

See Independent Auditor's Report

NEW MEXICO JUNIOR COLLEGE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2011

Account Name	Type	Western Commerce Bank	New Mexico State Treasurer	New MexiGROW LGIP	New Mexico Finance Authority
NMJC	Checking	\$ 25,073	\$ -	\$ -	\$ -
Instructional and general	Overnight Repurchase	-	-	-	-
Bond debt service	State treasurer	-	-	-	-
Debt service reserve	Mutual fund	-	-	-	179,394
NMJC money market	Mutual fund	-	-	-	359,437
Grant account	Checking	-	-	-	-
Student loan fund	Checking	-	-	-	-
Pell federal account	Checking	-	-	-	-
Payroll dep account	Checking	-	-	-	-
Agency account	Checking	-	-	-	-
NMJC	Short-term investment	-	-	11,625,000	-
NMJC	Valuation Allowance	-	-	(35,408)	-
NMJC Foundation	Petty Cash	-	-	-	-
NMJC Foundation	Cash Fund	-	-	-	-
NMJC Foundation	Cash Fund	-	-	-	-
NMJC Foundation	Cash Fund	-	-	-	-
NMJC Foundation	Cash Fund	-	-	-	-
NMJC Foundation	Cash Fund	-	-	-	-
NMJC Foundation	Cash Fund	-	-	-	-
NMJC Foundation	Checking	-	-	-	-
Amounts on deposit		25,073	-	11,589,592	538,831
Outstanding items		-	-	-	-
		<u>\$ 25,073</u>	<u>\$ -</u>	<u>\$ 11,589,592</u>	<u>\$ 538,831</u>

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Lea County State Bank	Bank of America	Wells Fargo Bank	Total	Component Unit		
				Merrill Lynch	Wells Fargo Bank	Total
\$ 32,446	\$ -	2,002,587	\$ 2,060,106	\$ -	\$ -	\$ -
-	-	1,010,350	1,010,350	-	-	-
-	-	-	-	-	-	-
-	-	-	179,394	-	-	-
-	-	-	359,437	-	-	-
-	10,000	-	10,000	-	-	-
-	25,729	-	25,729	-	-	-
-	574,995	-	574,995	-	-	-
-	46,611	-	46,611	-	-	-
-	280,670	-	280,670	-	-	-
-	-	-	11,625,000	-	-	-
-	-	-	(35,408)	-	-	-
-	-	-	-	-	-	-
-	-	-	-	112,411	-	112,411
-	-	-	-	18,826	-	18,826
-	-	-	-	10,666	-	10,666
-	-	-	-	75,861	-	75,861
-	-	-	-	182,227	-	182,227
-	-	-	-	-	-	-
-	-	-	-	-	250,776	250,776
32,446	938,005	3,012,937	16,136,884	399,991	250,776	650,767
-	(96,407)	(213,356)	(309,763)	-	(12,779)	(12,779)
<u>\$ 32,446</u>	<u>\$ 841,598</u>	<u>\$ 2,799,581</u>	<u>15,827,121</u>	<u>\$ 399,991</u>	<u>\$ 237,997</u>	<u>637,988</u>
		Petty cash	4,236			31
			<u>\$ 15,831,357</u>			<u>\$ 638,019</u>
Reconciliation to the Financial Statements:						
		Cash and cash equivalents	\$ 3,427,387			\$ 638,019
		Restricted cash and cash equivalents	538,831			-
		Short-term investment	11,589,592			-
			15,555,810			638,019
Statement of Fiduciary Assets and Liabilities:						
		Cash and cash equivalents	275,547			-
		Total deposits and investments	<u>\$ 15,831,357</u>			<u>\$ 638,019</u>

NEW MEXICO JUNIOR COLLEGE**SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY**

Schedule III

June 30, 2011

<u>Depository</u>	<u>CUSIP#</u>	<u>Type</u>	<u>Description of Pledged Collateral</u>	<u>Fair Market Value June 30, 2011</u>	<u>Name and Location of Safekeeper</u>
Wells Fargo Bank	31407HTY2	Bond	FNCL 831367 Due 1/1/36	\$ <u>1,030,557</u>	Wells Fargo Bank Minneapolis, MN
Total collateral on repurchase agreement deposits at Wells Fargo Bank				\$ <u><u>1,030,557</u></u>	

See Independent Auditor's Report

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Accounting & Consulting Group, LLP
Certified Public Accountants

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

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Board of Directors
New Mexico Junior College
Hobbs, New Mexico

We have audited the financial statements of the business-type activities of New Mexico Junior College (the College) and its discretely presented component unit as of and for the year ended June 30, 2011, and have issued our report thereon dated November 9, 2011. We have also audited the budget comparison schedules presented as supplemental information for the year ended June 30, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures 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 College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2011-1, 2011-2 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that is required to be reported under section 12-6-5 NMSA 1978 which is described in the accompanying schedule of findings and questioned costs as item 2011-3.

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the College's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the organization, the Office of the State Auditor, the New Mexico State Legislature, the New Mexico Higher Education Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Certified Public Accountants
Hobbs, New Mexico
November 9, 2011



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Board of Directors
New Mexico Junior College
Hobbs, New Mexico

Compliance

We have audited New Mexico Junior College's (the College) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2011. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the organization, New Mexico State Auditor, the New Mexico State Legislature, the New Mexico Higher Education Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Certified Public Accountants
Hobbs, New Mexico
November 9, 2011

NEW MEXICO JUNIOR COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Schedule IV

Year ended June 30, 2011

	<u>Federal CFDA Number</u>	<u>Program or Grantor Number</u>	<u>Federal Expenditures</u>
US Department of Education			
Direct programs:			
Student financial assistance cluster: (1)			
Federal pell grant program	84.063	42310	\$ 3,943,788
Federal SEOG program	84.007	42325	27,972
Federal work study program	84.033	42511	42,736
Federal Direct Plus Loan	84.268	42315	5,850
Federal Direct Sub Loan	84.268	42315	869,750
Federal Direct Unsub Loan	84.268	42315	806,402
TRIO cluster: (1)			
Student support services	84.042A	41131	282,539
Talent search	84.044A	41132	237,657
Upward bound	84.047A	41133	243,601
Higher Education Reconciliation Act			
Federal academic competitive grant	84.375	42330	27,938
Federal academic competitive grant 2nd year	84.375	42331	5,200
Passed through New Mexico			
Public Education Department			
Carl Perkins vocational support services	84.048	41312	105,588
Carl Perkins vocational technical education	84.048A	41314	15,278
State Fiscal Stabilization Fund (1)	84.394	41314	455,500
Special programs for the aging cluster:			
Adult Basic Education State	84.004	41211	169,422
Adult Basic Education Textbooks	84.002	41212	3,946
Adult Basic Education ESL/Civics	84.002	41216	12,936
Adult Basic Education	84.002	41310	92,157
US Nuclear Regulatory Commission			
Direct program:			
Nuclear Education Grant	77.006	41141	38,088
US NRC Scholarship	77.008	41142	76,136
US Small Business Administration			
Passed through New Mexico			
Public Education Department			
Small Business Development Center	59.037	41220	<u>231,939</u>
Total expenditures of federal awards			<u>\$ 7,694,423</u>

(1) Tested as major program

See independent auditor's report
See accompanying Notes to Schedule of Expenditures of Federal Awards

NEW MEXICO JUNIOR COLLEGE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

- NOTE 1** Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.
- NOTE 2** The period of availability for federal funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provision in Section H-Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement.
- NOTE 3** This schedule was prepared on the accrual basis of accounting.
- NOTE 4** New Mexico Junior College is not a direct participant in federally funded student loan programs where it enables them to track outstanding balances of the loans.

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes x No

Significant deficiency(ies) identified that are not considered to be material weakness(es): x Yes No

Noncompliance material to financial statements noted? Yes x No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes x No

Significant deficiency(ies) identified that are not considered to be material weakness(es): Yes x No

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

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

Identification of major programs:

CFDA Number(s)

84.063
84.007
84.033
84.268
84.042A
84.044A
84.047A
84.394

Name of Federal Program or Cluster

Federal PELL Grant Program
Federal SEOG Program
Federal Work Study Program
Federal Direct Student Loans
Student Support Services
Talent Search
Upward Bound
State Fiscal Stabilization Fund
Recovery Act ARRA Funds

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

Auditee qualified as low-risk auditee under the requirements set forth by OMB Circular A-133 section 530? x Yes No

B. FINDINGS—FINANCIAL STATEMENT AUDIT2011-1-Significant Deficiency: Changes in inventory not posted to the GL**Condition**

During our inventory observation testwork of inventory balance, it was noted that the changes in the inventory balance during the year have not been posted to the GL. During the audit, a correction was made to decrease inventory by \$62,380.

Criteria

Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx.) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

Effect

Not updating the inventory records could overstate or understate the inventory balance and make Cost of Goods Sold wrong.

Cause

New Mexico Junior College was not adjusting inventory when bookstore purchases were made.

Recommendation

We recommend that the New Mexico Junior College be diligent in recording all inventory transactions on a timely basis.

Agency Response

Management agrees that changes in NMJC's bookstore inventory should be posted to the GL. New Mexico Junior College understands the importance of accurately recording the bookstore inventory and we will be diligent in recording all inventory transactions on a timely basis.

2011-2-Significant Deficiency: Fixed asset reconciliation**Condition**

During our testwork of fixed assets, we noted that there was a difference in the amount of \$37,989 that does not reconcile from the fixed asset general ledger accounts to the subsidiary detail.

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that management is responsible for adopting sound accounting practices, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Effect

New Mexico Junior College books or records are at risk of containing material misstatements, as errors or intentional misstatements may occur and not be detected in a timely manner.

Cause

New Mexico Junior College's staff has been diligently working to ensure all balance sheet accounts are in agreement with their subsidiary details. Fixed asset accounts were in reconciliation process, however, not all differences had been located.

Recommendation

We recommend that the New Mexico Junior College continue to work on the reconciliation process and to have the reconciliations reviewed on a regular basis. They need to maintain a schedule of the differences between Banner and the spreadsheet.

Agency Response

Management agrees that fixed asset subsidiary ledgers need to be reconciled to the GL. We understand that timely reconciliation is important to the financial stability of the College. New Mexico Junior College staff will reconcile the differences between Banner and the subsidiary ledgers and will ensure this is done accurately and timely.

2011-3-Other Matter: Pledged Collateral**Condition**

The College maintained \$15,336 that was not adequately collateralized.

Criteria

6-10-17 NMSA 1978 states that any bank or savings and loan association designated as a depository of public money shall deliver securities of the kind specified in Section 6-10-16 NMSA 1978 to a custodial bank described in Section 6-10-21 NMSA 1978 and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received in accordance with Subsection B of Section 6-10-16 NMSA 1978. However, any such bank or savings and loan association may deliver a depository bond executed by a surety company as provided in Section 6-10-15 NMSA 1978 as security for any portion of a deposit of public money.

Effect

If the cash balances are not properly insured or collateralized, New Mexico Junior College could lose the uncollateralized portion of the public funds.

Cause

Lack of oversight over collateral pledged for cash balances.

Recommendation

We recommend that the New Mexico Junior College continue to work with the banks to insure that the public funds are properly collateralized.

Agency Response

Management agrees that public funds need to be properly collateralized. New Mexico Junior College understands the importance of the proper oversight of cash balances. We will ensure that cash balances are maintained with proper collateralization.

B. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

C. PRIOR YEAR FINDINGS

2007-2 Preparation of Financial Statements (College)
Resolved and not repeated.

2009-5: Incomplete Reconciliations (College)
Resolved and not repeated.

2010-1: Incomplete Time Sheets (College)
Resolved and not repeated.

2010-2: Lack of Segregation of Duties (College)
Resolved and not repeated.

2010-3: Journal Entries (College)
Resolved and not repeated.

NEW MEXICO JUNIOR COLLEGE

OTHER DISCLOSURES

FINANCIAL STATEMENT PREPARATION

The financial statements were prepared from the original books and records and with the assistance of the management of New Mexico Junior College as of June 30, 2011 by Accounting and Consulting Group, LLP.

EXIT CONFERENCE

The contents of this report and its schedules related to the component unit were discussed on November 9, 2011. The following persons were in attendance:

Foundation Officials

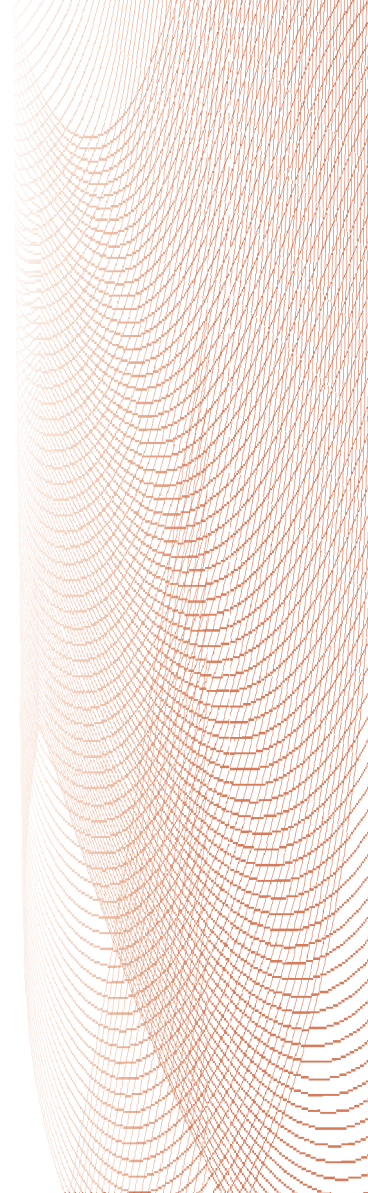
Dan Hardin, Foundation Treasurer
Tina Kunko, Secretary

Auditor

Cindy Bryan, Partner

College Officials

Patricia Chappelle, Board Secretary
Dr. Steve McCleery, President
Dan Hardin, Vice-President for Finance
Josh Morgan, Accountant/Comptroller
Guy Kesner, Board Member



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