

**STATE OF NEW MEXICO
WESTERN NEW MEXICO
UNIVERSITY**

Basic Financial Statements and Schedules
For the Fiscal Year Ended June 30, 2017
(With Independent Auditors' Reports Thereon)

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OFFICIAL ROSTER
JUNE 30, 2017

BOARD OF REGENTS

Ex Officio Members

| | |
|-------------------------------|---|
| The Honorable Susana Martinez | Governor of the State of New Mexico |
| Dr. Barbara Damron | Secretary for Higher Education Department |

Appointed Members

| | |
|------------------------|---------------------|
| Jerry Walz | President |
| Janice Baca-Argabright | Vice President |
| Arlean Murillo | Secretary/Treasurer |
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| Dr. Magdaleno Manzanarez | Vice President for External Affairs |



INDEPENDENT AUDITORS' REPORT

Tim Keller
New Mexico Office of the State Auditor
Board of Regents
State of New Mexico Western New Mexico University
Silver City, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the State of New Mexico Western New Mexico University (the "University"), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the University's basic financial statements as listed in the table of contents. We also have audited the budget comparisons presented as supplemental information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate discretely presented component unit of the University, as of June 30, 2017, and the respective changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparisons of the University as of June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of University's Proportionate Share of the Net Pension Liability, and Schedule of University's Contributions on pages 5 through 10, 56 and 57 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the University are and do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2017, the changes in its financial position, or, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

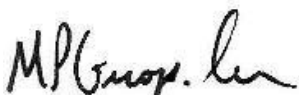
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements and the budgetary comparisons. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other schedules required by Section 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the other schedules required by Section 2.2.2.NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the other schedules required by Section 2.2.2.NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the University's internal control over financial reporting and compliance.



October 26, 2017

WESTERN NEW MEXICO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2017

Overview of the Financial Statements and Financial Analysis

Western New Mexico University is proud to present its financial statements for fiscal year 2017. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Please refer to the separate report titled *Western New Mexico Foundation Financial Statements* for these same three financial statements for the component unit.

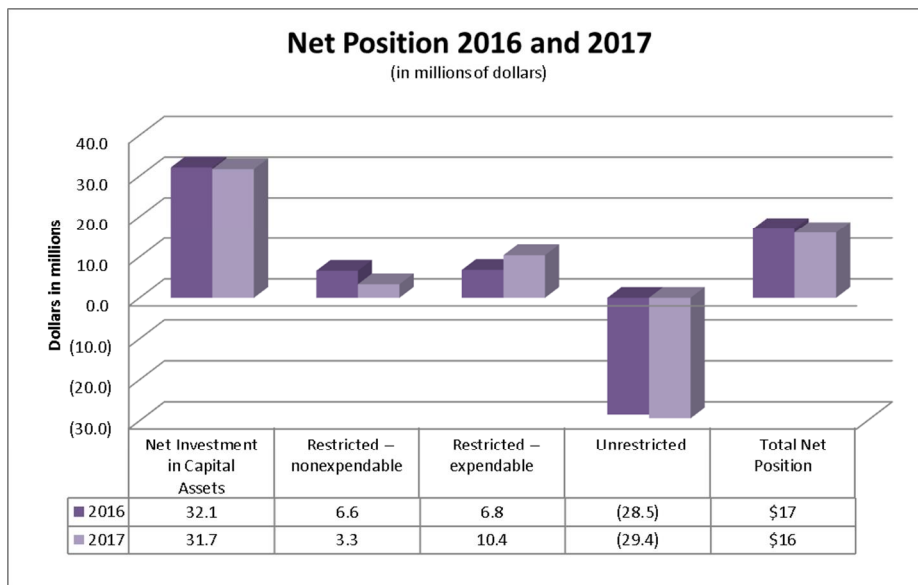
This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present end-of-year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Position (Assets minus Liabilities).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. The reader is also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Position provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the institution.

Net position is divided into three major categories. The first category, invested in capital assets, is net of debt. The next asset category is restricted net position, which is divided into two categories, nonexpendable and expendable. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Nonexpendable restricted net position is restricted for expenditures that fall within these three categories; scholarships and loans, capital projects, and debt service. The final category is unrestricted net position. Unrestricted net position is available to the institution for any lawful purpose of the institution.



WESTERN NEW MEXICO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2017

Statement of Net Position continued

The total net position of the institution decreased \$1 million from current year activity. A review of the Statement of Net Position will reveal a negative Unrestricted Net Position, resulting from implementation of GASB Statement 68: Accounting and Financial Reporting for Pensions. This statement requires employers that participate in group pension plans to report their proportionate share of the pension liability. The institution's proportionate share was \$43.4 million, an increase of \$5.2 million from previous year and can be seen in the variance of noncurrent liabilities. This increase was slightly offset by a decrease in bonds payable of \$1.4 million. Although this additional reporting of pension liability created a negative unrestricted net position, the overall net position of the institution remains positive. The University retains an undivided interest in the State of New Mexico Land Grant Permanent Fund held by the New Mexico State Investment Council. In accordance with State Statutes, the Land Grant Permanent Fund is held by the State of New Mexico for the benefit of the University and was recorded on the books of the University. In 2017, the State determined that there was inconsistent reporting of these balances amongst the other entities owning these interests and the Statewide Comprehensive Annual Financial Report. The University will no longer report their interest in the Land Grant Permanent Fund. The university's portion of Land Grant Permanent Fund in the amount of \$3.6 million was removed from noncurrent assets, which can be seen in the variance of restricted nonexpendable net position. Another significant change in noncurrent assets was the removal of capital assets that could not be accounted for during an annual inventory of assets. An increase is seen in restricted expendable net position of \$3.6 million as a result of construction for Fleming Hall and Harlan Hall getting underway this fiscal year.

The change in net position follows the institutional philosophy to use available resources to acquire and improve all areas of the institution to better serve the instruction and public service mission of the University.

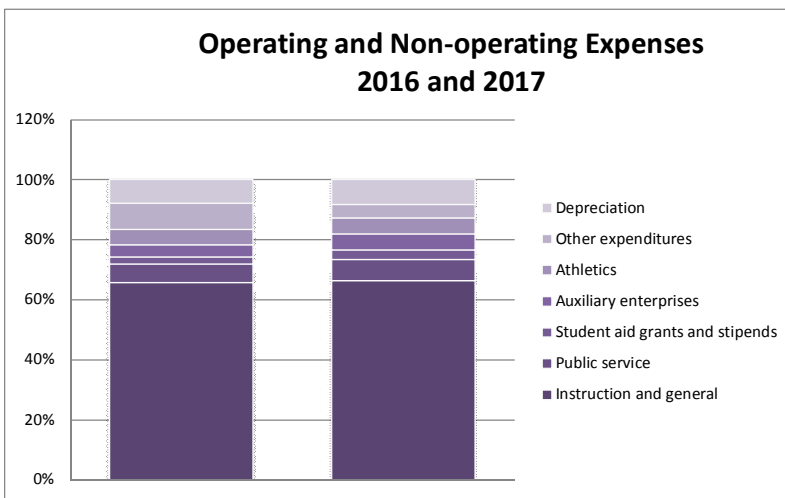
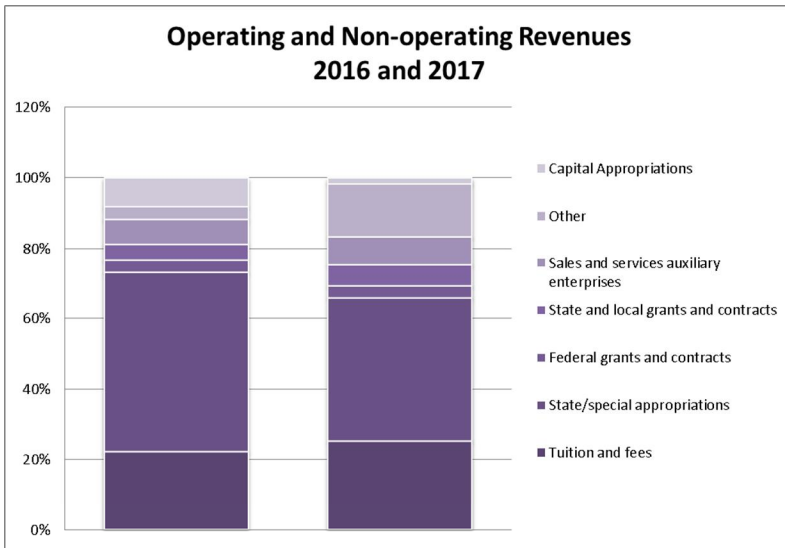
| | June 30 | | |
|---|---------------------|---------------------|--------------------|
| | 2016 | 2017 | Variance |
| Assets | | | |
| Current assets | \$21,181,038 | \$22,842,483 | \$1,661,445 |
| Noncurrent assets | 58,484,608 | 53,396,568 | (5,088,040) |
| Deferred Outflows | 2,818,039 | 7,475,157 | 4,657,118 |
| Total Assets and Deferred Outflows | \$82,483,685 | \$83,714,208 | \$1,230,523 |
| Liabilities | | | |
| Current liabilities | 5,291,504 | 4,636,270 | (655,234) |
| Noncurrent liabilities | 57,346,570 | 61,332,767 | 3,986,197 |
| Deferred Inflows | 2,799,275 | 1,666,129 | (1,133,146) |
| Total Liabilities and Deferred Inflows | \$65,437,349 | \$67,635,166 | \$2,197,817 |
| Net Position | | | |
| Net Investment in Capital Assets | 32,179,239 | 31,713,681 | (465,558) |
| Restricted . nonexpendable | 6,575,122 | 3,313,274 | (3,261,848) |
| Restricted . expendable | 6,760,918 | 10,438,766 | 3,677,848 |
| Unrestricted | (28,468,943) | (29,386,679) | (917,736) |
| Total Net Position | \$17,046,336 | \$16,079,042 | (\$967,294) |

WESTERN NEW MEXICO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the institution, both operating and non-operating, and the expenses incurred by the institution, operating and non-operating, and any other revenue, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.



WESTERN NEW MEXICO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2017

Statement of Revenues, Expenses and Changes in Net Position continued

The Statement of Revenues, Expenses and Changes in Net Position reflect a decrease in the change of net position at the end of the year of \$94 thousand. Overall, operating revenues were up by \$1.1 million. \$1.4 million of the Non-operating revenues decrease is from the cut in state appropriation from the previous fiscal year. Expenses decreased in total by \$4.0 million. The decrease in instruction and general is greatly due to the reduction in net pension expense of \$2.4 million. Other expenditures decreased significantly, mostly contributed to expenditures in the plant funds.

| | June 30 | | Variance |
|---|--------------------|--------------------|-------------------|
| | 2016 | 2017 | |
| Operating Revenues | | | |
| Tuition and fees | \$11,395,707 | \$11,909,273 | \$513,566 |
| Federal grants and contracts | 1,797,335 | 1,570,594 | (226,741) |
| State and local grants and contracts | 2,387,187 | 2,875,984 | 488,797 |
| Sales and services auxiliary enterprises | 3,589,517 | 3,764,697 | 175,180 |
| Other | 1,868,932 | 2,058,386 | 189,454 |
| <i>Total Operating Revenue</i> | 21,038,678 | 22,178,934 | 1,140,256 |
| Expenses | | | |
| Instruction and general | 31,821,932 | 29,498,467 | (2,323,465) |
| Public service | 3,009,832 | 3,135,252 | 125,420 |
| Student aid grants and stipends | 1,184,805 | 1,410,020 | 225,215 |
| Auxiliary enterprises | 1,914,045 | 2,372,558 | 458,513 |
| Athletics | 2,499,919 | 2,367,025 | (132,894) |
| Other expenditures | 4,189,202 | 1,981,609 | (2,207,593) |
| Depreciation | 3,866,142 | 3,665,646 | (200,496) |
| <i>Total Expenses</i> | 48,485,877 | 44,430,577 | (4,055,300) |
| <i>Operating Loss</i> | (27,447,199) | (22,251,643) | 5,195,556 |
| Nonoperating Revenues (Expenses) | | | |
| State appropriations/special appropriations and other nonoperating revenue | 26,097,931 | 24,236,054 | (1,861,877) |
| Gain/(Loss) before other revenues and expenses | (1,349,268) | 1,984,411 | 3,333,679 |
| Other revenues/(expenses) | 4,126,166 | 698,386 | (3,427,780) |
| <i>Net Increase/(Decrease) in Net Position</i> | \$2,776,898 | \$2,682,797 | (\$94,101) |

Statement of Cash Flows

The final statement presented by Western New Mexico University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-

WESTERN NEW MEXICO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2017

Statement of Cash Flows continued

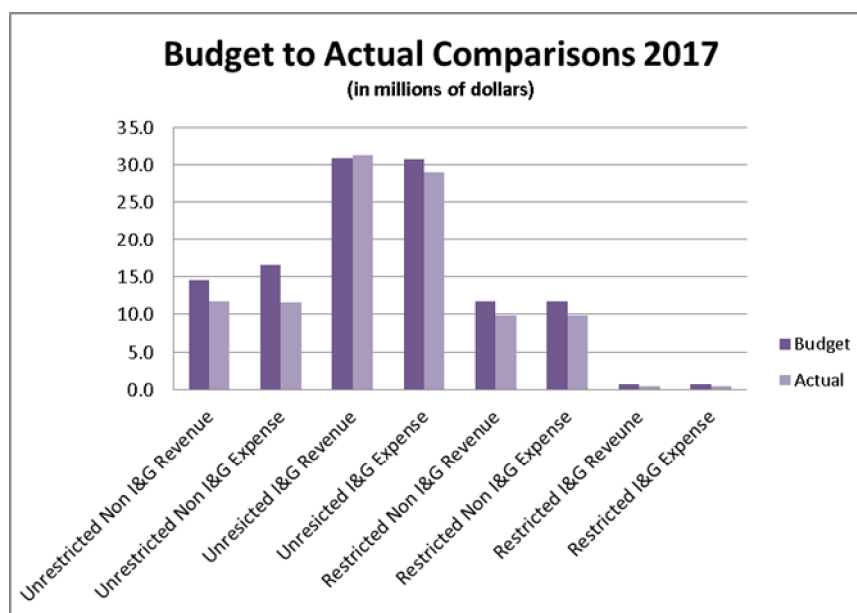
capital financing purposes. The third section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

| | June 30 | | |
|--|--------------------|---------------------|--------------------|
| | 2016 | 2017 | Variance |
| Net cash used by operating activities | (\$20,832,546) | (\$18,647,730) | \$2,184,816 |
| Net cash provided by noncapital financing activities | 25,792,111 | 24,189,732 | (1,602,379) |
| Net cash provided by investing activities | 380,754 | (252,239) | (632,993) |
| Net cash used by capital and related financing | (2,870,586) | (2,387,051) | 483,535 |
| Net increase (decrease) in cash and cash equivalents | 2,469,733 | 2,902,712 | 432,979 |
| Cash at beginning of year | 5,704,046 | 8,173,779 | 2,469,733 |
| Cash at end of year | \$8,173,779 | \$11,076,491 | \$2,902,712 |

Capital Asset and Debt Administration

The university underwent an extensive inventory of capital assets and wrote off \$1.9 million for assets previously disposed. When netted with the accumulated depreciation, the net loss amounted to \$6 thousand. The institution had no capital asset additions for facilities; however, construction started on Fleming Hall and Harlan Hall. Fleming Hall will be completed during fiscal year 2018. Auxiliary enterprises entered into a capital lease agreement for additional golf carts and land improvement equipment. This note payable will be paid off during fiscal year 2021. For more detailed information, please see the notes to the financial statements.

Budget/Actual Variances



WESTERN NEW MEXICO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Budget/Actual Variances continued

The actual unrestricted I&G fund balance shows a favorable variance of \$1.6 million from the final budget. This favorable variance was owing to a decrease in expenses, most recognized in salary and benefit savings and supplies and expense. Salary and benefits are fully budgeted; therefore, any lag in hiring creates a budget savings. Also, some positions may be left vacant throughout the remainder of the year. Variances in unrestricted non-I&G revenue and expense result mostly from budgeting capital outlay revenue and expense as if all projects were to be completed during the fiscal year. Restricted revenue and expenditure budgets were revised to reflect grants obtained by the institution after the start of the fiscal year. Actual performance in restricted funds was different from the final budget due to multi-year grants being awarded yet budgeted for the current year. Remaining revenue and expenditures will occur in the subsequent year based on the multi-year awards.

Comparative Analysis

Comparative financial information was presented in previous sections of this document.

Economic Outlook:

The current economic outlook of the nation and local economic conditions will have a significant impact regarding future enrollment. The fall semester of 2016 resulted in a slight increase in headcount; however, total FTE remained the same, signifying an increase in part time enrollment. Enrollment growth was experienced at both the undergraduate and graduate levels of online programs; however, there was a decrease in both undergraduate and graduate face to face enrollment. We continue to focus our efforts on future enrollment in the areas that will meet the current workforce demands.

The State of New Mexico continues to experience economic hardship and while funding for fiscal year 2018 was not significantly affected, the university will continue to practice conservative spending to be prepared for future cuts in state appropriation. As part of a comprehensive and thorough analysis, two of the four learning centers were closed; Lordsburg and Gallup. The City of Truth or Consequences made a financial decision to absorb the overhead cost for the learning center in that area, and the University is committed to provide the academic resources. Although the institution favors well in the funding formula based on positive student outcomes, to include completion of degrees and certifications, this will only result in allocation of funds if they are available for Higher Education within the State's budget.

Component Unit Financial Statements

Western New Mexico Foundation, Inc. (Foundation) is a component unit of the College. The separate financial statements of the Foundation can be obtained from Jodi Edens Crocker, Executive Director at the Western New Mexico Foundation, Inc., P.O. Box 1158, Silver City, New Mexico 88062.

WESTERN NEW MEXICO UNIVERSITY

STATEMENT OF NET POSITION

JUNE 30, 2017

| | Primary Government | Component Unit |
|--|-----------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 8,683,521 | \$ 3,051,903 |
| Cash and cash equivalents-restricted | 1,475,944 | - |
| Cash endowments | 146,921 | - |
| Cash held by others-restricted | 770,105 | - |
| Cash restricted for other organizations | - | 264,711 |
| Accounts receivable, net of \$5,478 and \$0 allowance | 71,616 | 5,000 |
| Federal Contract and grant receivables, net of \$0 allowance | 323,310 | - |
| State Contract and grant receivables, net of \$0 allowance | 367,058 | - |
| Private Contract and grant receivables, net of \$0 allowance | 19,174 | - |
| Student receivables, net of \$2,949,133 allowance | 243,353 | - |
| Capital grant receivables | 538,922 | - |
| Due from WNMU Foundation | 154,998 | - |
| Short-term Investments | 9,851,533 | - |
| Inventories | 23,049 | - |
| Prepaid assets | 172,979 | - |
| <i>Total current assets</i> | 22,842,483 | 3,321,614 |
| Noncurrent Assets | | |
| Accounts receivable, net of \$0 allowance | 167,946 | - |
| Endowment investment | 3,062,847 | 5,343,347 |
| Beneficial interest in perpetual trust | - | 776,390 |
| Capital assets, net of accumulated depreciation | 50,165,775 | 8,256 |
| <i>Total noncurrent assets</i> | 53,396,568 | 6,127,993 |
| Deferred Outflows | | |
| Deferred Outflows | 7,475,157 | - |
| <i>Total assets and deferred outflows</i> | \$ 83,714,208 | \$ 9,449,607 |
| LIABILITIES AND NET POSITION | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Payables and accrued liabilities | \$ 2,395,071 | \$ 3,472 |
| Accrued compensated absences | 131,119 | - |
| Accrued incentive retirement payable | 146,491 | - |
| Unearned revenue | 479,270 | - |
| Bonds payable - current portion | 1,305,106 | - |
| Notes Payable - current portion capital lease | 27,025 | - |
| Due to Western New Mexico University | - | 154,998 |
| Deposits held for others | 152,188 | 264,711 |
| <i>Total current liabilities</i> | 4,636,270 | 423,181 |
| Noncurrent Liabilities | | |
| Accrued compensated absences | 640,168 | - |
| Accrued incentive retirement payable | 149,356 | - |
| Net Pension Liability | 43,423,280 | - |
| Bonds payable - long-term portion | 17,032,130 | - |
| Notes Payable - long term portion capital lease | 87,833 | - |
| <i>Total noncurrent liabilities</i> | 61,332,767 | - |
| Deferred Inflows | | |
| Deferred Inflows | 1,666,129 | - |
| <i>Total liabilities and deferred inflows</i> | 67,635,166 | 423,181 |

The Notes to Financial Statements are an integral part of these statements.

WESTERN NEW MEXICO UNIVERSITY

STATEMENT OF NET POSITION

JUNE 30, 2017

| | Primary Government | Component Unit |
|---|-----------------------|---------------------|
| Net Position | | |
| Net investment in capital assets | 31,713,681 | 8,256 |
| Restricted for | | |
| Nonexpendable | | |
| Restricted (endowment fund balances) | 3,313,274 | 8,722,291 |
| Expendable | | |
| Scholarships, research, instruction and other loans | 383,076 | 182,299 |
| Capital projects | 7,300,668 | - |
| Debt service | 2,755,022 | - |
| Unrestricted | (29,386,679) | 113,580 |
| <i>Total net position</i> | 16,079,042 | 9,026,426 |
| <i>Total liabilities and net position</i> | \$ 83,714,208 | \$ 9,449,607 |

The Notes to Financial Statements are an integral part of these statements.

WESTERN NEW MEXICO UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

| | Primary Government | Component Unit |
|---|-----------------------|-------------------|
| Operating Revenues | | |
| Tuition and fees | \$ 18,217,506 | \$ - |
| Tuition discounts and allowances | (6,308,233) | - |
| | 11,909,273 | - |
| Federal grants and contracts | 1,570,594 | - |
| State and local grants and contracts | 2,693,938 | - |
| Private grants and contracts | 182,046 | - |
| State land and permanent fund and investment income | 271,090 | - |
| Sales and services of auxiliary enterprises | 3,764,697 | - |
| Contributions | - | 354,854 |
| Other | 1,787,296 | 30,171 |
| <i>Total operating revenues</i> | 22,178,934 | 385,025 |
| Operating Expenses | | |
| Instruction and general | | |
| Instruction | 14,424,700 | - |
| Academic support | 1,838,989 | - |
| Student services | 2,229,195 | - |
| Institutional support | 8,166,179 | - |
| Operations and maintenance support | 2,839,404 | - |
| | 29,498,467 | - |
| Public service | 3,135,252 | - |
| Student aid grants and stipends | 7,718,253 | - |
| Tuition discounts and allowances | (6,308,233) | - |
| Auxiliary enterprises | 2,372,558 | - |
| Athletics | 2,367,025 | - |
| Other expenditures | 1,981,609 | - |
| Awards and grants to individuals | - | 114,678 |
| Operating expenses | - | 389,783 |
| Depreciation | 3,665,646 | 636 |
| <i>Total expenses</i> | 44,430,577 | 505,097 |
| <i>Operating (loss) income</i> | (22,251,643) | (120,072) |

The Notes to Financial Statements are an integral part of these statements.

WESTERN NEW MEXICO UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

| | Primary Government | Component Unit |
|---|-----------------------------|----------------------------|
| Non operating revenues (expenses) | | |
| Federal Pell Grants | 5,037,832 | - |
| State appropriations | 19,151,900 | - |
| Contribution to permanent endowment | | 86,417 |
| Change in value of perpetual trust | | 54,236 |
| Interest and investment income | 46,322 | 746,035 |
| <i>Net nonoperating revenues</i> | <u>24,236,054</u> | <u>886,688</u> |
| <i>Income before other revenues, expenses, gains and losses</i> | <u>1,984,411</u> | <u>766,616</u> |
| Other | | |
| Capital appropriations | 711,300 | - |
| Endowment Revenue | (1,713) | - |
| Gain/(Loss) on asset disposition | (11,201) | - |
| <i>Net other revenues/expenses/gains and losses</i> | <u>698,386</u> | <u>-</u> |
| <i>Increase in net position</i> | <u>2,682,797</u> | <u>766,616</u> |
| Net position | | |
| Net position - beginning of year, as previously stated | 17,046,336 | 7,537,656 |
| Prior period adjustment | (3,650,091) | 722,154 |
| Net position - beginning of year, as restated | <u>13,396,245</u> | <u>8,259,810</u> |
| <i>Net position, end of year</i> | <u>\$ 16,079,042</u> | <u>\$ 9,026,426</u> |

The Notes to Financial Statements are an integral part of these statements.

WESTERN NEW MEXICO UNIVERSITY

STATEMENT OF CASH FLOWS

JUNE 30, 2017

| | Primary Government | Component Unit |
|---|-----------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Adjustment to reconcile increase in net assets to net cash provided by operating activities | | |
| Tuition and fees | \$ 19,298,317 | \$ - |
| Grants and contracts | 4,641,068 | - |
| Sales and services of auxiliary enterprises | 3,766,516 | - |
| Other operating receipts | 1,921,590 | 170,157 |
| Payments to employees for salaries and benefits | (29,098,260) | (31,994) |
| Payments to suppliers | (1,585,064) | (140,071) |
| Loans and grants issued to students | (17,591,897) | (117,305) |
| <i>Net cash (used) provided by operating activities</i> | (18,647,730) | (119,213) |
| Cash Flows From Noncapital Financing Activities | | |
| Federal Pell grants | 5,037,832 | - |
| Donation and pledges | | 86,417 |
| State appropriations | 19,151,900 | - |
| <i>Net cash (used) provided by noncapital financing activities</i> | 24,189,732 | 86,417 |
| Cash Flows From Investing Activities | | |
| Purchase of investments | (5,099,976) | (100,456) |
| Interest received on investments | 46,322 | 117,646 |
| Sale of investments | 4,801,415 | 2,506,962 |
| <i>Net cash (used) provided by investing activities</i> | (252,239) | 2,524,152 |
| Cash Flows From Capital and Related Financing Activities | | |
| Purchase of capital assets | (1,869,839) | - |
| Capital appropriations received | 777,930 | - |
| Repayments of capital debt | (1,410,000) | - |
| Notes Payable - Capital Lease | 114,858 | - |
| <i>Net cash (used) provided by capital and related financing activities</i> | (2,387,051) | - |
| <i>Net (decrease) increase in cash and cash equivalents</i> | 2,902,712 | 2,491,356 |
| Cash and cash equivalents, beginning of year | 8,173,779 | 560,547 |
| <i>Cash and cash equivalents, end of year</i> | \$ 11,076,491 | \$ 3,051,903 |

The Notes to Financial Statements are an integral part of these statements.

WESTERN NEW MEXICO UNIVERSITY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

| | Primary Government | Component Unit |
|---|------------------------|---------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES | | |
| Operating (loss) income | \$ (22,251,643) | \$ (120,072) |
| Adjustments to reconcile operating (loss) income to net cash (used)/provided by operating activities | | |
| Depreciation expense | 3,665,646 | 636 |
| Bond premium amortization expense | (35,107) | - |
| Net pension expense | (572,498) | - |
| (Gain)/Loss on asset disposition | (11,201) | - |
| Unrealized (gain)/loss on investments | (135,083) | - |
| Endowment | (1,713) | - |
| Changes in assets and liabilities | | |
| Receivables | 960,571 | (3,700) |
| Inventories | (17,328) | - |
| Other assets | 307,180 | - |
| Accounts payable and accrued expenses | (702,170) | 3,923 |
| Deposits held for others | 1,819 | - |
| Unearned revenue | 120,240 | - |
| Accrued incentive retirement payable | (62,635) | - |
| Compensated absences | 86,192 | - |
| <i>Net cash (used) provided by operating activities</i> | \$ (18,647,730) | \$ (119,213) |

The Notes to Financial Statements are an integral part of these statements.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background. In March 1893, the first meeting of the Board of Regents was held and plans were made for the construction of the Normal School to open in the fall of 1894. The first classes were held in September 1894 in the First Presbyterian Church with two faculty and forty students while the foundation was laid for Old Main, the first campus building.

The first administrative head of the Normal School was Professor George Selby, who served only the first year. Charles M. Light became the President in 1895 and continued through the 1913-14 academic year. Miss Isabelle Eckles became the first graduate and also the leader of many graduates to excel in business, education, science, mining, ranching and government.

In the 1900s, the Normal School continued to expand with the addition of new buildings including Ritch Hall in 1906, and Fleming Hall, now the University Museum, in 1917. Telephones were installed on campus this same year. In 1923, the name of the School became New Mexico State Teacher College and five years later Light Hall was completed. In 1928, the men's dorm at Bowden Hall was finished and plans were begun to create a new high school at the east edge of the campus. In 1949, enrollment increased due to returning veterans after World War II and the name was changed to New Mexico Western College. The institution continued to experience considerable growth from 1952-1962. In the winter of 1963, the name of the institution was changed again to Western New Mexico University (the University) in keeping with the further broadening of the scope and mission of the institution.

The mission of Western New Mexico University is to engage and empower learners in a multicultural, inclusive, creative, and caring community of teaching, scholarship/research, and service. Exemplary teaching, quality programs, enhanced regional service and cultural diversity are components of this mission. The University offers a range of certificate, associate, undergraduate and graduate programs and has been accredited by North Central Association of Colleges and Schools since 1942.

In the fall of 2016, Western New Mexico University's student enrollment was 3,420 (including its off-campus educational centers) taught by 151 faculty members. The campus consists of 53 buildings on 230 acres. Nearly half (47.9%) of the University's student population is from rural southwestern New Mexico. Its major service area is the neighboring four-county region comprised of Catron, Grant, Hidalgo and Luna counties. Additionally, some of the University's students come from other countries including Australia, Belize, Bolivia, Brazil, Canada, Czech Republic, Egypt, England, France, Germany, Guatemala, Israel, Italy, Kazakhstan, New Zealand, Mexico, Nigeria, Spain, and United Kingdom. Students range in age from late teens to senior citizens. The University's students are 63% female, 37% male and have been recognized as a strength for the bilingual and multi-cultural population of the region. The four largest ethnic groups are Hispanic (37%), White (33%), American Indian (3%), and African American (8%).

Western New Mexico University continues to build upon its reputation for quality education in a stunning southwestern mountain environment along the Continental Divide.

Per Chapter 6, Article 17, NMSA 1978, the University is defined as a state educational institution and is included as part of the primary government of the State of New Mexico.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. Grants are recognized when all eligibility requirements are met. The University applies all applicable Government Accounting Standards Board (GASB) pronouncements. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB.

Reporting Entity. In 2013, The University implemented Governmental Accounting Standards Board Statement No 61 The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No.14 and No.34, which modifies certain requirements for inclusion of component units in the financial reporting entity. In evaluating how to define the University for financial reporting purposes, management has evaluated the University's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the University. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the University is able to exercise oversight responsibilities. Based on the application of these criteria, the following is a brief review of each potential component unit addressed in defining the University's reporting entity.

In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the University. The decision to include a potential component unit in the University's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Western New Mexico Foundation, Inc. (Foundation) is presented as a discretely presented component unit in these financial statements due to:

1. The economic resources received by the Foundation are entirely for the direct benefit of the University's constituents.
2. The University has an ongoing economic interest in the net assets of the Foundation.

The Foundation was organized as a not-for-profit New Mexico corporation under 501(c)(3) of the Internal Revenue Code. The Foundation receives support from contributions, earnings on investments and rental of real estate. The agreement between the University and the Foundation stipulates that the Foundation 1) creates and encourages opportunities for individuals and organizations to invest in the support of the University; 2) manages the gifts, endowments, and income-producing properties; 3) assures donors that contributions will be utilized for the specified purpose; and 4) provides a medium for alumni and community leaders to participate. In exchange, the University covers the costs of salary and benefits as agreed upon for certain Foundation employees, provides office space for the Foundation office with access to campus facilities, and provides payroll and purchasing support. The Foundation, however, is responsible to reimburse the University for other operating expenses as well as scholarship funding.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The separate financial statements of the Foundation can be obtained from Jodi Edens Crocker, Executive Director at the Western New Mexico Foundation, Inc., P.O. Box 1158, Silver City, New Mexico 88062.

The financial reporting for the University includes the Watts Foundation, a separate entity, as a blended component unit. It is separate from the WNMU Foundation and is not significant in relation to the University's financial statements.

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

Budget. The University follows the requirements established by the Higher Education Department (HED) and the New Mexico Department of Finance and Administration-State Budget Division (DFA) in formulating its budgets and in exercising budgetary control within the limits of available income. Budget requests are submitted to and approved by the Board of Regents, then forwarded to HED and DFA. These state agencies develop consolidated funding recommendations for all higher education institutions which are considered for appropriation during the annual legislative sessions. The legal level of budgetary control is at the functional level, in accordance with NMAC 5.3.4.10. If total expenditures are expected to exceed the approved budget, the University is required to submit a Board of Regents approved budget adjustment request (BAR) to HED for approval which is subsequently forwarded to DFA for final approval.

Procedures for Approval of Operating Budgets

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

In accordance with House Bill 2, in general, unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for appropriation by the University in subsequent years.

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

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

Investments. Certain investments such as debt and equity securities and pooled investment funds are recorded at market value in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net position. The carrying value of investments is based on quoted market prices.

Investments are made in accordance with the Constitution of the State of New Mexico.

Income Taxes. The University, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the University are deductible by donors as provided under Section 170 of the Internal Revenue Code, and consistent with the provisions under Section 501(c)(3) of the Internal Revenue Code.

Accounts Receivable. The University records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses. The majority of the net balance of accounts receivable is expected to be collected within one year of the date of the financial statements; however, the Perkins receivable is considered long-term.

Unearned Revenue. Revenue for each academic session is reported within the fiscal year during which the session's refund period ends. The revenues for the summer session are shown as income in the accompanying financial statements if the session's refund period ends prior to June 30. If summer courses' refund period is beyond June 30, then the revenue is reported in the next fiscal year. After the refund period has expired, tuition is considered as earned and recognized as revenue. Unearned revenues also include amounts received from grant and contract sponsors that have not been earned.

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

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 University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The Foundation had previously capitalized certain assets considered to be historical treasures and works of art; however, they were not depreciable as a result of this classification. Those items were recorded at fair market value at date of donation or acquisition and consist of pottery, paintings, and costumes.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings, 20-25 years for infrastructure and land improvements, 10 years for library books, and 5 to 12 years for equipment.

Capital Assets-Impairment. Capital assets are reviewed and evaluated to assess impairment. Impairment occurs when the sum of the expected cash flows from the asset is less than the book value of the asset. If this condition is met, the book value will be adjusted to reflect the impairment and it will be recorded as a loss. The University does not have significant amounts of impaired assets as of June 30, 2017.

Compensated Absences. The University accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. All permanent, full-time employees accumulate vacation time as listed below. Part-time employees are prorated proportionately. Employees may accumulate up to a maximum of 168 hours (4 weeks) vacation time during their period of employment; however, any unused vacation balance will be paid to the employee up to a maximum of 160 hours upon termination of employment. The vacation accrual for the President was negotiated at 450 hours. Accumulated unpaid vacation is accrued when incurred in the current unrestricted fund. At June 30, 2017, the accrued vacation pay amounted to \$771,287. This amount does not exceed a normal year's accumulation.

| Years of Service | Bi-Weekly | Semi-Monthly | Monthly |
|------------------|--------------------|-----------------|------------------|
| 0 up to 5 years | 3.7 hours per pay | 4 hours per pay | 8 hours per pay |
| 5 up to 10 years | 4.62 hours per pay | 5 hours per pay | 10 hours per pay |
| 10 or more years | 5.54 hours per pay | 6 hours per pay | 12 hours per pay |

Sick Leave. According to University policy, conversion of sick leave accrual to cash is not permitted, and no amount for sick pay has been recorded in the current unrestricted fund.

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

Net Position. The University's net position is classified as follows:

Net Investment in Capital Assets. This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted. The portion of net position with the following constraints:

- a) Externally imposed by creditors, grantors, contributions, or laws or regulations of other governments.
- b) Imposed by law through constitutional provisions or enabling legislation.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Restricted - Nonexpendable. The nonexpendable restricted portion of net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted - Expendable. The expendable restricted portion of net position includes resources that the University is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

Unrestricted. The unrestricted portion of net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted, and then toward unrestricted resources.

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

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, other student charges and expenses, the University has recorded a scholarship allowance.

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

NOTE 2. CASH AND INVESTMENTS

WESTERN NEW MEXICO UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Cash. The University's deposits are in demand and time deposit accounts at local financial institutions except for cash held at Bank of New York and Bank of Albuquerque by New Mexico Finance Authority for the benefit of the University. Section 6-10-17, New Mexico Statutes, requires

NOTE 2. CASH AND INVESTMENTS continued

that depositories of the University provide collateral equal to one-half of the amount of uninsured public monies on deposit with the exception of overnight repurchase agreements which require 102 percent collateralization. All collateral is held in third-party safekeeping in the name of the University. The majority of the total deposits were invested in interest bearing accounts at June 30, 2017.

Investments. The Vice President for Business and Finance and the Comptroller are authorized to purchase and sell investments of the University. Investments are required to be made in a prudent manner so as to ensure an acceptable yield with a minimum risk which requires investment in securities or other financial instruments which are not contrary to 6-8-10 NMSA 1978, existing bond covenants or other externally placed restrictions. The investments not related to the Foundation consisted primarily of various government revenue bonds and FDIC insured certificates of deposit at June 30, 2017.

Investments of \$12,914,380 for the University and \$5,343,346 for the Foundation at June 30, 2017 represent longer term investments in debt and equity securities, including, but not limited to, pooled or common trust funds holding such types of securities, subject to any specific limitation set forth in the applicable gift instrument.

The University's endowment securities had a market increase during the year of \$376,145 which is included in the nonexpendable restricted portion of the net position. If and when the securities have a market appreciation, none of the market appreciation will be available for authorization of expenditure by the governing board.

The University's other endowment investments are recorded as noncurrent assets in the Statement of Net Position. Only the corpus has been invested with earnings available for expenditures. Scholarships from the endowment were awarded in the amount of \$115,320 during 2017. The remaining earnings remain in the nonexpendable restricted portion of the net position.

The Foundation endowment securities also had a market increase of \$513,512 at year end to reflect market value. If and when the securities have a market appreciation, the amount available for expenditure must be authorized by the governing board. Effective July 1, 2009, in accordance with House Bill 454, revised guidelines for the Uniform Prudent Management of Institutional Funds Act were provided for the investment and expenditure of endowment funds which requires adherence by the Foundation. The governing board authorized a spending limit of 2.5% of available portfolio funds for scholarship awards and 2% to cover administrative costs during fiscal year 2011; this has remained in effect through June 30, 2017.

The bond ratings for the government-backed revenue bonds range from A1 to AAA.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. CASH AND INVESTMENTS continued

At June 30, 2017, the investments of the University consisted of the following:

| | June 30, 2017 | Quoted Prices In Active Markets for Identical Assets Level 1 | Significant Other Inputs Level 2 | Significant Other Inputs Level 3 |
|---|---------------------|---|--|--|
| Primary Institution | | | | |
| Government-backed revenue bonds | \$1,767,568 | \$1,767,568 | \$0 | \$0 |
| NM Municipal | 302,417 | 302,417 | - | - |
| Certificates of deposit (Includes Watts Foundation) | | | | |
| Endowment Securities | 9,305,149 | 9,305,149 | - | - |
| Equity securities | 1,539,246 | 1,539,246 | - | - |
| Total Investments | \$12,914,380 | \$12,914,380 | \$0 | \$0 |

At June 30, 2017, the investments of the University's component unit consisted of the following:

| | June 30, 2017 | Quoted Prices In Active Markets for Identical Assets Level 1 | Significant Other Inputs Level 2 | Significant Other Inputs Level 3 |
|--|--------------------|---|--|--|
| Component Unit | | | | |
| Endowment securities: | | | \$0 | \$0 |
| U.S Treasury notes | 20,634 | 20,634 | - | - |
| <i>Total U.S. Government and Agency Securities</i> | 20,634 | 20,634 | - | - |
| Equity securities | 3,974,241 | 3,974,241 | - | - |
| Real estate investment trust | 624,350 | 624,350 | - | - |
| Limited partnerships | 145,669 | 145,669 | - | - |
| Hedge funds | - | - | - | - |
| Certificate of deposit | - | - | - | - |
| Bond mutual funds | 578,452 | 578,452 | - | - |
| Total Investments | \$5,343,346 | \$5,343,346 | \$0 | \$0 |

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. CASH AND INVESTMENTS continued

Collateralization of Deposits. At June 30, 2017, the recorded values of cash and time deposits with financial institutions were as follows. Bank balances (which differ from the reported values due to reconciling items) are categorized as follows:

| | Primary Institution | Component Unit |
|--|------------------------|---------------------|
| Amount insured by the Federal Deposit Insurance Corporation | \$ 307,621 | \$ 500,000 |
| 1. Amount insured by the Securities Investor Protection Corporation | | 260,302 |
| Amount collateralized with securities held in the University's name by their agent | 7,020,881 | |
| Uncollateralized | 3,139,893 | 2,566,813 |
| Uncollateralized (NMFA fbo WNMU) | 770,105 | |
| Total Cash and Time Deposit Bank Balances | 11,238,500 | 3,327,115 |
| Other reconciling items on deposit accounts | (162,009) | (10,501) |
| Total reported cash balance | \$ 11,076,491 | \$ 3,316,614 |

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the University's deposit may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$3,139,893 of the University's bank balance was uninsured and uncollateralized. When applicable, all collateralized deposits are held by the pledging bank's trust department in the University's name. The cash on deposit and held by others (NMFA) has no collateral requirements.

Interest Rate Risk. In accordance with the University's investment policy, investment maturities for cash balances are scheduled to coincide with projected cash flows. The University does not commit any discretionary funds to maturities longer than ten years from the date of purchase. Funds are only committed to maturities longer than five years from date of purchase if directly related to a specific capital or other long-term project. Investment of non-discretionary funds reflect maturity dates not to exceed the final maturity dates established within the funds' restrictive purposes. At least 50% of all cash balances are invested in maturities less than two years.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2. CASH AND INVESTMENTS continued

A summary of the investments, the respective maturities of the investments, and the exposure to interest rate risk at June 30, 2017 is:

| | Fair Value | Less Than One Year | 1 . 5 Years | 6 . 10 Years | Greater Than 10 |
|--|---------------------|-----------------------|--------------------|------------------|--------------------|
| Long-Term Investments: | | | | | |
| <u>Primary Institution:</u> | | | | | |
| Items not subject to interest rate risk: | | | | | |
| Equity securities and investments held by others | \$1,539,246 | \$- | \$- | \$- | \$- |
| Certificate of deposit | 9,305,149 | 1,615,156 | 7,440,470 | 249,523 | - |
| Government revenue bonds | 1,767,568 | - | 1,279,893 | 487,675 | - |
| NM Municipal bonds | 302,417 | 150,206 | - | 152,211 | - |
| Federal Home Loan notes | - | - | - | - | - |
| Total long-term investments | \$12,914,380 | \$1,765,362 | \$8,720,363 | \$889,409 | \$- |

The University invests in equity securities in accordance with the laws of 1991, Chapter 69 of the State of New Mexico and Chapter 21, Article 1, Section 10 of the NMSA, 1978 Compilation. The brokered certificates of deposits were purchased in increments between \$100,000 and \$500,000 at 39 separate financial institutions and are fully insured by FDIC.

| | Fair Value | Less Than One Year | 1 . 5 Years | 6 . 10 Years | Greater Than 10 |
|--|---------------------|-----------------------|-------------------|------------------|--------------------|
| Long-Term Investments: | | | | | |
| <u>Component Unit:</u> | | | | | |
| Items not subject to interest rate risk: | | | | | |
| Equities | \$ 3,974,241 | \$- | \$- | \$- | \$3,974,241 |
| Fixed Income | 578,452 | 27,804 | 172,951 | 90,195 | 287,502 |
| Real Estate/Other | 770,019 | - | - | - | 770,019 |
| U.S. Government: | | | | | - |
| Agency obligation | 20,634 | - | - | - | 20,634 |
| Total long-term investments | \$ 5,343,346 | \$ 27,804 | \$ 172,951 | \$ 90,195 | \$5,052,396 |

The real estate investment trust, limited partnerships, and hedge funds are investments which are readily traded on the open stock market.

Credit Risk. The University's investment policy limits investment in money market instruments and other securities of commercial banks, broker-dealers or recognized financial institutions to those

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. CASH AND INVESTMENTS continued

rated in the highest Rating Category by any nationally recognized statistical rating organization (NRSROs) or which are guaranteed by a person or entity whose long-term debt obligations are rated in the highest Rating Category by any NRSRO, including, without limitation, securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the provisions of 15 USC Sections 80(a)-1 et. Seq., which invest only in, or whose securities are secured only by obligations of the government of the United States of America. The University's investment in mutual funds was unrated by Moody's or Standard and Poor's. The University's investment of the endowment fund is governed by a revocable trust agreement with the Foundation. The fixed income investments held in trust for the University by the Foundation have, in the aggregate, a weighted average rating of Aa1 by Moody's Investor Service.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the University or the Foundation's investment in a single type of security. The University diversifies its use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio is invested in a single security type or with a single financial institution or at a single maturity.

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposit may not be returned to it. The Foundation does not have a deposit policy for custodial risk. As of June 30, 2017, FDIC insurance in the amount of \$708,185 was in place; the remaining balance of \$2,618,929 of the component unit's bank balance of \$3,327,114 was uninsured and uncollateralized. However, there are no collateralized deposits required.

Custodial Credit Risk-Endowment Investments. The University has its endowments invested primarily in certificates of deposit and one government revenue bond. For an investment, this is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's custodial risk policy for University endowment funds is in accordance with the laws of 1991, Chapter 69 of the State of New Mexico and Chapter 21, Article 1, Section 10 of the NMSA, 1978 compilation. As of June 30, 2017, the University's endowment balance in certificates of deposit was \$1,257,073 with \$152,211 as the balance in the government revenue bond. Of the investment in corporate stocks and bonds, the University had no custodial credit risk exposure at June 30, 2017.

The Foundation's investment portfolio is covered by the Securities Investor Protection Corporation (SIPC), up to \$500,000 of protection, of which \$250,000 may be cash for each protected account. Additionally, the brokerage firm provides supplemental protection on eligible assets over \$500,000 through underwriters, subject to aggregate loss limit of \$600 million. A per client limit for cash is \$1,900,000. Note that SIPC does not protect against losses in the portfolio value due to market valuations.

Foreign Currency Risk. Foreign currency risk is the potential risk of loss arising from investments denominated in foreign currencies when there are changes in exchange rates. The potential risk of loss arising from changes in exchange rates can be significant. At June 30, 2017, the University and

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017

the Foundation held no investments denominated in foreign currencies and therefore had no foreign currency risk.

NOTE 3. CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2017:

| | Balance June 30,2016 | Additions | Transfers | Retirements | Balance June 30, 2017 |
|---|-------------------------|----------------------|------------|----------------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$1,334,481 | \$- | \$- | \$- | \$1,334,481 |
| Collections | 446,830 | - | - | - | 446,830 |
| Construction in process | 589,557 | 1,154,885 | - | - | 1,744,442 |
| Total capital assets not being depreciated | \$2,370,868 | \$1,154,885 | \$- | \$- | \$3,525,753 |
| Other Capital Assets: | | | | | |
| Land improvements | \$5,453,474 | \$- | \$- | \$- | \$5,453,474 |
| Buildings | 94,953,838 | - | - | - | 94,953,838 |
| Equipment | 12,317,995 | 555,598 | - | \$(2,177,775) | 10,695,818 |
| Library materials | 11,887,918 | 170,557 | - | (8,074) | 12,050,401 |
| Total other capital assets | \$124,613,225 | \$726,155 | \$- | \$(2,185,849) | \$123,153,531 |
| Less Accumulated Depreciation for: | | | | | |
| Land improvements | \$2,754,424 | \$134,327 | \$- | \$- | \$2,888,751 |
| Buildings | 50,965,506 | 2,639,690 | - | - | 53,605,196 |
| Equipment | 10,394,230 | 663,836 | - | (2,166,574) | 8,891,492 |
| Library materials | 10,908,351 | 227,793 | - | (8,074) | 11,128,070 |
| Total accumulated depreciation | \$75,022,511 | \$3,665,646 | | \$(2,174,648) | \$76,513,509 |
| Other capital assets, net | \$49,590,714 | (\$2,939,491) | \$- | \$11,201 | \$46,640,022 |
| Capital Assets Summary: | | | | | |
| Capital assets not being depreciated | \$2,370,868 | \$1,154,885 | \$- | \$- | \$3,525,753 |
| Other capital assets, at cost | 124,613,225 | 726,155 | - | (2,185,849) | 123,153,531 |
| Total cost of capital assets | 126,984,093 | 1,881,040 | - | (2,185,849) | 126,679,284 |
| Accumulated depreciation | (75,022,511) | (3,665,646) | - | 2,174,648 | (76,513,509) |
| Capital assets, net | \$51,961,582 | (\$1,784,606) | - | \$11,201 | \$50,165,775 |

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3. CAPITAL ASSETS continued

Following are the changes in capital assets for the component unit for year ended June 30, 2017:

| | Balance June 30, 2016 | Additions | Transfers | Retirements | Balance June 30, 2017 |
|---|-----------------------------|----------------|------------|-------------|-----------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$8,120 | \$- | \$- | \$- | \$8,120 |
| Collections | - | - | - | - | - |
| Total capital assets not being depreciated | \$8,120 | \$- | \$- | \$- | \$8,120 |
| Other Capital Assets: | | | | | |
| Leasehold improvements | \$- | \$- | \$- | \$- | \$- |
| Buildings | - | - | - | - | - |
| Software | 1,448 | - | - | - | 1,448 |
| Equipment | 9,908 | - | - | - | 9,908 |
| Total other capital assets | \$11,356 | \$- | \$- | \$- | \$11,356 |
| Less Accumulated Depreciation for: | | | | | |
| Leasehold improvements | \$- | \$- | \$- | \$- | \$- |
| Buildings | - | - | - | - | - |
| Software | 1,447 | - | - | - | 1,448 |
| Equipment | (9,137) | (635) | - | - | 9,773 |
| Total accumulated depreciation | \$8,892 | \$(635) | \$- | \$- | \$(11,220) |
| Other capital assets, net | \$8,892 | \$(635) | \$- | \$- | \$8,256 |
| Capital Assets Summary: | | | | | |
| Capital assets not being depreciated | \$8,120 | \$- | \$- | \$- | \$8,120 |
| Other capital assets, at cost | 11,356 | - | - | - | 11,356 |
| Total cost of capital assets | 19,476 | - | - | - | 19,476 |
| Accumulated depreciation | (10,584) | (635) | - | - | (11,220) |
| Capital assets, net | \$8,892 | \$(635) | \$- | \$- | \$8,256 |

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, is as follows:

| | Beginning Balance | Additions | Retirements | Adjmts | Ending Balance | Amount due in one year |
|----------------------|----------------------|------------------|----------------------|------------|---------------------|------------------------------|
| Bond Payable | \$19,010,000 | | \$- (\$1,410,000) | \$- | \$17,600,000 | \$1,270,000 |
| Bond Premium | 772,343 | - | (35,106) | - | 737,236 | 35,106 |
| Notes Payable | - | 135,127 | (20,269) | | 114,858 | 27,025 |
| Compensated Absences | 685,095 | 618,056 | (531,864) | - | 771,287 | 113,119 |
| Total | \$20,467,438 | \$753,183 | (\$1,997,239) | \$0 | \$19,223,381 | \$1,445,250 |

Additional information regarding Revenue Bonds Payable is included in Note 5.

NOTE 5. REVENUE BONDS

Tuition, fees and certain other income, excluding state appropriations and restricted contributions and grants are pledged revenues on bonds payable. Revenue bonds payable consisted of the following:

| <u>Description</u> | <u>Interest Rate</u> | <u>Balance June 30, 2017</u> |
|--|--------------------------|----------------------------------|
| System Revenue Bonds , Series 2012, Due June 1, 2038 Bond premium | 2.00% - 5.5% | 10,885,000 274,604 |
| System Refunding and Improvement Revenue Bonds, Series 2013, Due June 1, 2038 Bond premium | 2.10% - 5.1% | 4,920,000 462,632 |
| System Improvement Revenue Bonds, Series 2014, Due June 1, 2021 Bond premium | 1.970% | 1,795,000 |
| | | \$18,337,236 |

The scheduled maturities of the revenue bonds and notes payable are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|---------------------|--------------------|---------------------|
| 2018 | \$1,270,000 | \$630,858 | \$1,900,858 |
| 2019 | 1,240,000 | 583,663 | 1,823,663 |
| 2020 | 980,000 | 549,239 | 1,529,239 |
| 2021 | 1,005,000 | 523,511 | 1,528,511 |
| 2022 | 570,000 | 488,549 | 1,058,549 |
| 2023 - 2027 | 3,195,000 | 2,098,934 | 5,293,934 |
| 2028 - 2032 | 3,780,000 | 1,511,555 | 5,291,555 |
| 2033 - 2038 | 5,560,000 | 786,739 | 6,346,739 |
| Totals | \$17,600,000 | \$7,173,048 | \$24,773,048 |

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. REVENUE BONDS continued

The bonds outstanding are secured by the collection of monies from all income producing facilities of the University, gross proceeds from student fees and certain other revenue as further defined in the bond resolutions.

Interest expense incurred during June 30, 2017, was \$673,332 and is recorded in other expenses.

NOTE 6. EMPLOYEE BENEFITS

Workers' Compensation Insurance. The University is insured for workers' compensation through the State of New Mexico General Services Department-Risk Management Division (RMD). RMD provides workers' compensation for all employees as required by state law. The University remits payments to RMD for this coverage based on premium statements received from RMD. Total expense for the year ended June 30, 2017, was \$49,328 which has been charged to expenses.

Pension Plan – Educational Retirement Board. Substantially all of the University'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, other employees of state public school districts, colleges and universities, and some state agency employees) 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.

Member Contributions - Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 10.7% of their gross salary in fiscal year 2017 and thereafter.

Employer Contributions . In fiscal year 2017, and thereafter, the University was required to contribute 13.9% of the gross covered salary for employees whose annual salary is \$20,000 or less, and 13.9% of the gross covered salary for employees whose annual salary is more than \$20,000.

The contribution requirements of plan members and the University are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The University's contributions to ERB for the fiscal years ending June 30, 2017, 2016, and 2015, were \$2,356,262, \$2,274,359, \$2,243,923, respectively, which equal the amount of the required contributions for each fiscal year. The University's contributions to ERB for the Foundation for the fiscal years ending June 30, 2017, 2016, and 2015 were \$18,629, \$18,643, \$13,512, respectively.

When employing retired PERA members, the University must remit 13.9% of the applicable wages to ERB when member's annual salary is less than \$20,000. The rate is also 13.9% when salary is in excess of \$20,000. The University's contributions for PERA retirees for the fiscal years ending June 30, 2017, 2016, and 2015 were \$29,406, \$33,809, \$35,866, respectively.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6. EMPLOYEE BENEFITS continued

Other Post-Employment Benefit Plans

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's 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 (Section 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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6. EMPLOYEE BENEFITS continued

was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The University's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$377,766, \$366,254, and \$357,850, respectively, which equal the required contributions for each year. The University's contributions to the RHCA for the Foundation for the years ended June 30, 2017, 2016, and 2015 were \$2,680, \$2,682, \$1,944, respectively.

Incentive Retirement Policy. As of June 30, 2017, 13 faculty members had entered into the incentive retirement plan. At June, 30, 2017, the incentive retirement payable is \$295,847 of which \$146,491 is payable within one year.

Tenured faculty members may negotiate for and take advantage of an appreciable and substantial monetary benefit in consideration for voluntary selection of early retirement. The faculty members requesting benefits under the program must:

1. Reach the age of 60 to 69 on or before July 1 of the calendar year preceding the proposed date of incentive retirement.
2. Be employed under appointment with tenure with ten or more years of continuous service at the University.

Participants receive a financial incentive in exchange for surrender of tenure and termination of employment, as specified in a written incentive retirement contract, described below. Specific dollar settlement incentive amounts are based on a percentage of the participant's base salary for the first year and the preceding year's base salary (as approved by the President of the University) for all future years of the program.

The amount of the incentive retirement payment is calculated as provided below:

| <u>Age*</u> | <u>Percentage</u> | <u>Normal Incentive Payout Period</u> |
|-------------|-------------------|---------------------------------------|
| 60 | 100% | 5 years (20% of base pay per year) |
| 61 | 100% | 4 years (25% of base pay per year) |
| 62 | 100% | 3 years (33.33% of base pay per year) |
| 63 | 87.5% | 3 years (29.16% of base pay per year) |
| 64 | 75% | 3 years (25% of base pay per year) |
| 65 | 62.5% | 2 years (31.25% of base pay per year) |
| 66 | 50% | 2 years (25% of base pay per year) |
| 67 | 37.5% | 1 payment |
| 68 | 25% | 1 payment |
| 69 | 12.5% | 1 payment |

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6. EMPLOYEE BENEFITS continued

*On or before July 1 of each year preceding the academic year in which individual elects to participate in the program. No benefit shall be payable to an individual requesting to participate who has reached age 70 on or before July 1 of the year preceding the request.

Payments under the Incentive Retirement Plan for participants are made in equal monthly installments for the period specified above beginning thirty days from the effective date of termination; however, a modified payment schedule may be negotiated between the participant and the University.

Alternate Retirement Plan-ERB. There is an additional alternate defined contribution retirement plan, administered through the Educational Retirement Board which certain employees (faculty or other professionals) employed on or after July 1, 1991, may elect instead. Article II, Section 22, NMSA, 1978 compilation, as amended, passed by the 1991 New Mexico Legislature, and signed into law by Governor Bruce King, provides for the implementation of an Alternative Retirement Plan (ARP) in Sections 22-11-47 through 22-11-52. All Plan Contributions are 100 percent vested at all times and does not provide for forfeitures. Participants in ARP have the option of investing with either TIAA CREF or Fidelity Investments. While the Educational Retirement Board has approved the aforementioned Annuity Carriers, the Participant will invest in these vehicles at their own risk and discretion.

Contributions: For fiscal year ending June 30, 2016, contribution rates for an employee who elects to participate in the alternate plan are 10.7% of gross salary and 10.9% of gross salary for the University. The University is also required to contribute to the Educational Retirement Board an additional 3% of the gross salary of each employee so that the University's total contribution for each participating employee is 13.9% of the employee's gross salary. The University's alternative retirement plan contributions to ERB for the fiscal years ending June 30, 2017, 2016, and 2015, were \$48,019, \$44,667, \$45,209, respectively, which equal the amount of the required contributions for each fiscal year.

Alternative Retirement Plan-403(b). In addition to the ERB plan, the University sponsors a 403(b) defined savings contribution plan for its employees. The University does not contribute or match any funds in the 403(b) savings program. The total amount of employee contributions for the fiscal year 2017 was \$111,071.

Alternative Retirement Plan-457(b). In October 1997, the University's Governing Board adopted the State of New Mexico's Deferred Compensation Plan. The 457 Deferred Compensation Plan was implemented fall 1997 and provides an additional voluntary retirement savings option for all employees. Under the plan in calendar year 2016, employees may voluntarily contribute up to a maximum of \$18,000 if under age 50, and up to a maximum of \$24,000 if the employee is 50 or older. The University does not contribute or match any funds in the 457(b) savings program. The total amount of employee contributions for the fiscal year 2017 was \$30,653.

NOTE 7.COMMITMENTS AND CONTINGENCIES

Operating Leases. The University is obligated under certain lease (rental) agreements, which are accounted for as operating leases. Incorporated in each lease agreement is a fiscal funding clause, which allows the University to cancel the operating lease if funding for future periods is not appropriated. The likelihood of such an occurrence is considered to be remote by the University. Rent expense for the year ended June 30, 2017 was \$298,386.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7.COMMITMENTS AND CONTINGENCIES continued

Future minimum rental payments required under operating leases is as follows for the years subsequent to June 30, 2017:

| | |
|------|------------------------------|
| 2018 | \$218,504 |
| 2019 | 132,773 |
| 2020 | 31,908 |
| 2021 | 7,977 |
| | <hr/> \$391,162 <hr/> |

Construction obligations of \$2,441,230 are not presented in the financial statements. These obligations represent unfinished contracts with various entities.

Contingencies. Reimbursements for amounts expended by the University under the terms of federal and state grants and contracts are subject to audit and possible adjustments by the granting agency. Grants and contracts for the prior years are available to be audited by federal and state agencies

It is the opinion of University management that adjustments, if any, will not have a material effect on the University's financial position or results of operations.

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

1. Liability and civil rights protection for claims made by others against the University
2. Coverage to protect the University's property and assets.

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

NOTE 8. PAYABLES AND ACCRUED LIABILITIES

Payables and accrued liabilities consist of the following at June 30, 2017:

| | |
|---|--------------------------------|
| Accounts payables | \$1,257,850 |
| Accrued payroll | 264,642 |
| Accrued payroll taxes, insurance, and retirement benefits | 599,172 |
| Other accrued liabilities | 273,407 |
| | <hr/> \$2,395,071 <hr/> |

NOTE 9. RESTRICTED NET POSITION – ENABLING LEGISLATION

No portion of the University's June 30, 2017 net position is restricted due to enabling legislation for House Bills for Capital Projects.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10. SPECIAL CAPITAL OUTLAY APPROPRIATION

The University has the following capital outlay appropriations as of June 30, 2017:

| <u>Description</u> | <u>Appropriation Period</u> | <u>Appropriated Amount</u> | <u>Expended Total TD</u> | <u>Encumbered Balance</u> | <u>Remaining Amount</u> |
|---|---------------------------------|--------------------------------|------------------------------|-------------------------------|-----------------------------|
| Harlan Hall Renov (Sev Tax) | 2015 | \$891,000 | \$349,468 | \$258,215 | \$283,317 |
| Fleming Hall (Sev Tax) | 2013 | 169,500 | 169,500 | - | - |
| WNMU Emergency Telephone Poles (Sev Tax) | 2016 | 195,000 | - | - | 195,000 |
| Infrastructure (GO Bond) | 2015 | 5,940,000 | 3,522,698 | 2,068,541 | 348,761 |
| Harlan Hall & Infrastructure (GO Bond) | 2016 | 5,000,000 | - | - | 5,000,000 |
| Grand Total | | \$12,195,500 | \$4,041,666 | \$2,326,756 | \$5,827,078 |

Harlan Hall Renovation

Harlan Hall was appropriated severance tax funds to plan, design, renovate and construct improvements and infrastructure; which is where the sciences are housed. The remaining balance has been earmarked for an external chemical building to be constructed to improve safety and provide a centralized location for the hazardous materials to be stored. The plans include fire suppression, HVAC, and appropriate ventilation.

WNMU was also appropriated general obligation bonds for various projects to include Harlan Hall. The funds for Harlan Hall are to plan, design, demolish, construct, improve, landscape and equip Harlan Hall and for infrastructure upgrades campus-wide.

Fleming Hall

Fleming Hall was appropriated severance tax funds to plan, design, construct, renovate, equip, demolish and landscape our campus museum. The remaining balance will be used toward storage costs while construction is under way.

WNMU was also appropriated general obligation bonds for various projects, to include Fleming Hall. The funds for Fleming Hall are to plan, design, construct, renovate, including utility infrastructure. The remaining balance will be used toward construction costs and architectural fees.

WNMU Emergency Telephone Poles

WNMU was appropriated severance tax funds to plan, design, construct, purchase and install emergency telephone poles campus-wide, including related information technology, equipment, furniture and infrastructure.

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN

Summary of Significant Accounting Policies

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Plan (ERP) and additions to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP. For this purpose, benefit payments

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

(including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at https://www.nmerb.org/Annual_reports.html.

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

The Plan is considered a component unit of the State's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Benefits benefit. A member's retirement benefit is determined by a formula which includes three component parts: 1) the member's final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan Provisions for Retirement Eligibility. For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member's age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

- The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits
- The member's age is 67, and has earned 5 or more years of service credit.

Forms of Payment. The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options. The Plan has three benefit options available.

- Option A. Straight Life Benefit . The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- Option B. Joint 100% Survivor Benefit . The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- Option C. Joint 50% Survivor Benefit . The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

Disability Benefit. An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found total disabled. The disability benefit is equal to 2% of the member's Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

Cost of Living Adjustment (COLA). All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

Refund of Contributions. Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

Alternative Retirement Plan. Effective October 1991, the New Mexico legislature established an Alternative Retirement Plan (ARP) through the enactment of ERA Sections 22-11-47 through 52 NMSA 1978 to provide eligible employees an election to establish an alternative retirement investment plan. In contrast to the defined benefit plan administered by NMERB, the ARP is a defined contribution plan. NMERB is the trustee of the ARP which is administered by two third party contractors for NMERB. The administrators approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments. These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP, and have certain discretionary authority to decide matters under the ARP. As the

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

ARP trustee NMERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

Eligibility. Employees of the University of New Mexico, New Mexico State University, New Mexico Institute of Mining and Technology, New Mexico Highlands University, Eastern New Mexico University, Western New Mexico University, Central New Mexico Community College, Clovis Community College, Luna Community College, Mesalands Community College, New Mexico Junior College, Northern New Mexico College, San Juan College and Santa Fe Community College are eligible to make an election to participate within ninety days of employment. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan. Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation.

Form of Payment. Retirement, death, and other benefits are based upon contributions made and earnings accumulated on those contributions, in accordance with the terms of the applicable vendor contracts and Internal Revenue Service Code. Retirement benefits shall, at the option of the employee, be paid:

- In the form of a lifetime income, if held in an annuity contract,
- Payments for a term of years, or
- A single-sum cash payment.

ARP retirement, death, and other benefits, including disability benefits, cannot be paid from the funds administered by NMERB.

ARP Contributions. For the year ended June 30, 2017, colleges and universities contributed 10.90% of participating employees' gross salary to the ARP vendor on behalf of the participant, and 3% of the employees' gross salary to NMERB. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP vendors. Employees participating in the ARP do not accrue rights to benefits in the defined benefit pension plan based on the 3% contributions to the Plan. Employer contributions reported in the Statement of Changes in Fiduciary Net Position include amounts remitted on behalf of both the ARP defined contribution plan and the defined benefit plan. The 3% contribution remitted for fiscal years ended June 30, 2017 and 2016 were \$48,019 and \$44,667 respectively.

Contributions. For the fiscal year ended June 30, 2017 and 2016 educational employers contributed to the Plan based on the following rate schedule.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

| Fiscal Year | Date Range | Wage Category | Member Rate | Employer Rate | Combined Rate | Increase Over Prior Year |
|--------------------|-------------------|----------------------|--------------------|----------------------|----------------------|---------------------------------|
| 2017 | 7/1/16 to 6/30/17 | Over \$20K | 10.70% | 13.90% | 24.60% | 0.00% |
| 2017 | 7/1/16 to 6/30/17 | \$20K or less | 7.90% | 13.90% | 21.80% | 0.00% |
| 2016 | 7/1/15 to 6/30/16 | Over \$20K | 10.70% | 13.90% | 24.60% | 0.00% |
| 2016 | 7/1/15 to 6/30/16 | \$20K or less | 7.90% | 13.90% | 21.80% | 0.00% |

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2017 and 2016, the University paid employee and employer contributions of \$2,356,262 and \$2,274,359, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of \$43,423,280 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the University's proportion was 0.60340%, which was an increase/decrease of 0.01356% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of \$4,305,009. At June 30, 2017, University's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

| | Deferred Outflows of Resources | Deferred Outflows of Resources |
|---|---|---|
| Differences between expected and actual experience | \$ 188,386 | \$ (413,010) |
| Change of assumptions | 883,924 | |
| Net difference between projected and actual earnings on pension plan investments | 2,592,008 | |
| Changes in proportion and differences between the University contributions and proportionate share of contributions | 1,341,990 | (1,253,119) |
| Employer contributions subsequent to the measurement date | 2,468,849 | |
| Total | \$ 7,475,157 | \$ (1,666,129) |

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

\$2,468,849 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------|-----------|
| 2018 | \$912,326 |
| 2019 | 391,121 |
| 2020 | 1,404,645 |
| 2021 | 632,087 |
| 2022 | - |

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------|------|
| Inflation | 3.0% |
|-----------|------|

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

| | |
|---|--|
| Salary increases | Composed of 3.0% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service. |
| Investment rate of return | 7.75% compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75 real rate of return. The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: <ol style="list-style-type: none"> 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class. |
| Average of Expected Remaining Service Lives | 3.77 years. |
| Mortality | Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB. |

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012.

Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.

Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.

Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.

| | |
|--------------------------|---|
| Retirement Age | Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014. |
| Cost-of-living increases | 2% per year, compounded annually. |

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

| | |
|---------------------------|--|
| Payroll growth | 3.5% per year (with no allowance for membership growth). |
| Contribution accumulation | 5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future). |
| Disability Incidence | Approved rates applied to eligible members with at least 10 years of service. |

The actuarial assumptions and methods are set by the Plan's Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on June 12, 2015 in conjunction with the six-year actuarial experience study period ending June 30, 2014. At that time, the Board adopted several assumption changes, which included a decrease in the annual wage inflation rate from 4.25% to 3.75%, and changes to the mortality rates, disability rates, and retirement rates for members who joined the plan after June 30, 2010. In addition, the board lowered the population growth rate assumption to zero.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation

NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN continued

and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Rate of Return |
|--------------------|------------------------------|--|
| Equities | 35% | |
| Fixed Income | 28% | |
| Alternatives | 36% | |
| Cash | 1% | |
| Total | 100% | 7.75% |

Discount rate. A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2016. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.75%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| University's proportionate share of the net pension liability | \$57,513,126 | \$43,423,280 | \$31,732,689 |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued NMERB's financial reports. The reports can be found on NMERB's Web site at https://www.nmerb.org/Annual_reports.html .

NOTE 12. RESTATEMENT OF NET POSITION

The University's retains an undivided interest in the State of New Mexico Land Grant Permanent Fund held by the New Mexico State Investment Council. In accordance with State Statutes, the Land Grant Permanent Fund is held by the State of New Mexico for the benefit of the University and was recorded on the books of the University. In 2017, the State determined that there was inconsistent reporting of these balances amongst the other entities owning these interests and the Statewide Comprehensive Annual Financial Report. The University will no longer report their interest in the Land Grant Permanent Fund.

The Foundation discovered errors made in prior periods. The Foundation was included as an income beneficiary in a trust agreement in 1988. The Foundation became a beneficiary in a perpetual trust at the time of the benefactor's death. This beneficial interest in a perpetual trust was not recorded by the Foundation. As a result, other noncurrent assets were understated by \$722,154 at June 30, 2016. The adjustment to correct this error resulted in an increase to restricted nonexpendable net position of \$722,154 at June 30, 2016

The following prior period adjustments were made to the beginning net position previously reported in the University's financial statements at June 30, 2016.

WESTERN NEW MEXICO UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

| | Primary Institution | Component Unit |
|---|------------------------|-------------------|
| Net position as originally stated at June 30, 2016 | \$ 17,046,336 | \$ 7,537,656 |
| Change in reporting for Investments Held for Others - Land Grant Permanent Fund based on GASB 34 and GASB 54 | (3,650,091) | - |
| Beneficial Interest in Perpetual Trust | - | 722,154 |
| Net position restated at June 30, 2016 | \$ 13,396,245 | \$ 8,259,810 |

NOTE 13. NEW PRONOUNCEMENT

In fiscal 2018, the New Mexico Retiree Healthcare Authority will implement GASB 75 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, the University is responsible for other postemployment benefits (OPEB) liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. Management has not determined the impact of this statement, but anticipates that the fiscal year 2018 financial statements will include a material liability.

WESTERN NEW MEXICO UNIVERSITY
UNRESTRICTED AND RESTRICTED - ALL OPERATIONS
AND BEGINNING AND ENDING BALANCES
BUDGET COMPARISONS
YEAR ENDED JUNE 30, 2017

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|---|----------------------|----------------------|----------------------|---|
| Beginning Fund Balance | \$ 10,656,165 | \$ 16,392,994 | \$ 16,392,994 | \$ - |
| Revenues | | | | |
| State general fund appropriations | 20,159,900 | 19,151,900 | 19,151,900 | - |
| Federal revenue sources | 6,368,593 | 7,656,338 | 6,626,306 | (1,030,032) |
| Tuition and fees | 14,842,040 | 15,454,600 | 18,217,507 | 2,762,907 |
| Land and permanent fund | 176,711 | 176,711 | 271,090 | 94,379 |
| Endowments and private gifts | - | - | - | - |
| Other | 11,880,293 | 15,394,293 | 9,015,022 | (6,379,271) |
| <i>Total Unrestricted & Restricted Revenues</i> | <i>53,427,537</i> | <i>57,833,842</i> | <i>53,281,824</i> | <i>(4,552,017)</i> |
| Expenditures | | | | |
| Instruction | 14,904,055 | 15,214,803 | 14,487,335 | 727,468 |
| Academic support | 1,917,038 | 1,945,498 | 1,838,990 | 106,508 |
| Student services | 2,265,294 | 2,316,917 | 2,229,195 | 87,722 |
| Institutional support | 7,638,569 | 8,878,711 | 8,166,179 | 712,532 |
| Oper. & maint. of plant | 3,125,138 | 3,036,239 | 2,839,405 | 196,834 |
| Research | 52,688 | 995,798 | 579,710 | 416,088 |
| Public service | 824,483 | 3,644,543 | 3,135,252 | 509,291 |
| Auxiliary enterprises | 2,387,003 | 2,819,803 | 2,372,558 | 447,245 |
| Intercollegiate athletics | 2,571,957 | 2,533,716 | 2,367,025 | 166,691 |
| Capital outlay | 3,822,019 | 4,377,144 | 996,318 | 3,380,826 |
| Renewal and replacements | 841,006 | 1,081,858 | 702,117 | 379,741 |
| Retirement of indebtedness | 2,142,305 | 2,155,774 | 2,102,951 | 52,823 |
| Other | 10,379,702 | 10,732,009 | 9,220,194 | 1,511,815 |
| <i>Total Unrestricted & Restricted Expenditures</i> | <i>52,871,257</i> | <i>59,732,813</i> | <i>51,037,230</i> | <i>8,695,584</i> |
| Net Transfers | - | - | (58,463) | 58,463 |
| Change in net position-budgetary basis | 556,280 | (1,898,971) | 2,186,142 | 4,085,113 |
| <i>Ending Fund Balance</i> | <i>\$ 11,212,447</i> | <i>\$ 14,494,023</i> | <i>\$ 18,579,124</i> | <i>\$ 4,085,101</i> |

WESTERN NEW MEXICO UNIVERSITY
 COMBINED REVENUES, EXPENDITURES,
 AND BEGINNING AND ENDING BALANCES BUDGET COMPARISONS (CONTINUED)
 YEAR ENDED JUNE 30, 2017

RECONCILIATION OF BUDGET BASIS TO GENERALLY ACCEPTED
 ACCOUNTING PRINCIPLES (GAAP) BASIS

| | |
|-------------------------------|----------------------|
| Budget basis expenditures | \$ 51,037,230 |
| Capital expenditures | 304,809 |
| Loss on disposal of equipment | (11,201) |
| Depreciation | 1,490,998 |
| Net pension expense | (572,498) |
| Incentive retirement salaries | (62,635) |
| Scholarship allowance | (6,308,233) |
| Bond payments | (1,330,248) |
| Other | (117,645) |
| <u>GAAP basis expenses</u> | <u>\$ 44,430,577</u> |
| | |
| Budget basis revenues | \$ 53,281,824 |
| Scholarship allowance | (6,308,233) |
| Endowment Funds | 140,176 |
| Other | 10,808 |
| <u>GAAP basis revenues</u> | <u>\$ 47,124,575</u> |

The reporting of actuals (budgetary basis) is a non-GAAP accounting method that excludes depreciation expense and includes the cost of capital equipment purchases. The budgetary basis approximates the fund basis of accounting.

WESTERN NEW MEXICO UNIVERSITY
UNRESTRICTED - NON INSTRUCTION & GENERAL
REVENUES, EXPENDITURES, AND BEGINNING AND ENDING BALANCES
BUDGET COMPARISONS
YEAR ENDED JUNE 30, 2017

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|--|---------------------|----------------------|----------------------|---|
| Beginning Fund Balance | \$ 8,108,855 | \$ 9,925,538 | \$ 9,925,538 | \$ - |
| Revenues | | | | |
| Tuition | - | - | - | - |
| Miscellaneous fees | 2,281,378 | 2,317,511 | 4,924,934 | 2,607,423 |
| Government appropriation - federal | - | - | - | - |
| Government appropriations-state | 2,058,200 | 1,955,300 | 1,955,290 | (10) |
| Government appropriations-local | - | - | - | - |
| Government grants/contracts - federal | - | - | - | - |
| Government grants/contracts - state | - | - | - | - |
| Government grants/contracts -local | - | - | - | - |
| Private grants/contracts | - | - | - | - |
| Endowments | - | - | - | - |
| Land and permanent fund | - | - | - | - |
| Private gifts | - | - | - | - |
| Sales & service | 3,588,017 | 3,719,380 | 3,684,147 | (35,233) |
| Other sources | 5,848,720 | 6,627,270 | 1,112,504 | (5,514,766) |
| Total revenues | 13,776,315 | 14,619,461 | 11,676,875 | (2,942,586) |
| Expenditures | | | | |
| Instruction and general | - | - | - | - |
| Student social and cultural | 1,235,982 | 1,449,120 | 1,205,108 | 244,012 |
| Research | 52,688 | 70,872 | 50,639 | 20,233 |
| Public service | 824,483 | 1,088,460 | 906,047 | 182,413 |
| Internal service departments | 294,875 | 325,037 | 289,369 | 35,668 |
| Student aid | 657,754 | 739,754 | 641,831 | 97,923 |
| Auxiliary enterprises | 2,376,903 | 2,815,903 | 2,370,758 | 445,145 |
| Intercollegiate athletics | 2,571,957 | 2,533,716 | 2,367,025 | 166,691 |
| Independent operations | - | - | - | - |
| Capital outlay | 3,822,019 | 4,377,144 | 996,318 | 3,380,826 |
| Renewal and replacements | 841,006 | 1,081,858 | 702,117 | 379,741 |
| Retirement of indebtedness | 2,142,305 | 2,155,774 | 2,102,951 | 52,823 |
| Total expenditures | 14,819,972 | 16,637,638 | 11,632,163 | 5,005,475 |
| Net Transfers | 1,517,265 | 3,937,456 | 4,315,784 | (378,328) |
| Change in net position-budgetary basis | 473,608 | 1,919,279 | 4,360,496 | 2,441,217 |
| Ending Fund Balance | \$ 8,582,463 | \$ 11,844,817 | \$ 14,286,034 | \$ 2,441,217 |

WESTERN NEW MEXICO UNIVERSITY
RESTRICTED -NON INSTRUCTION & GENERAL
REVENUES, EXPENDITURES, AND BEGINNING AND ENDING BALANCES
BUDGET COMPARISONS
YEAR ENDED JUNE 30, 2017

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|--|--------------------|-------------------|------------------|---|
| Beginning Fund Balance | \$ - | \$ - | \$ - | \$ - |
| Revenues | | | | |
| Tuition | - | - | - | - |
| Miscellaneous fees | - | - | - | - |
| Government appropriation - federal | - | - | - | - |
| Government appropriations-state | - | - | - | - |
| Government appropriations-local | - | - | - | - |
| Government grants/contracts - federal | 6,188,793 | 7,458,238 | 6,239,091 | (1,219,147) |
| Government grants/contracts - state | 957,548 | 2,920,290 | 2,521,303 | (398,987) |
| Government grants/contracts -local | 826,850 | 1,090,479 | 180,969 | (909,510) |
| Private grants/contracts | 228,000 | 234,000 | 902,602 | 668,602 |
| Endowments | - | - | - | - |
| Land and permanent fund | - | - | - | - |
| Private gifts | - | - | - | - |
| Sales & service | - | - | - | - |
| Other sources | - | - | - | - |
| Total Restricted Revenues | 8,201,191 | 11,703,007 | 9,843,965 | (1,859,042) |
| Expenditures | | | | |
| Instruction and general | - | - | - | - |
| Student social and cultural | 23,077 | 8,284 | 7,467 | 817 |
| Research | - | 924,926 | 529,071 | 395,855 |
| Public service | - | 2,556,083 | 2,229,205 | 326,878 |
| Internal service departments | - | - | - | - |
| Student aid | 8,168,014 | 8,209,814 | 7,076,422 | 1,133,392 |
| Auxiliary enterprises | 10,100 | 3,900 | 1,800 | 2,100 |
| Intercollegiate athletics | - | - | - | - |
| Independent operations | - | - | - | - |
| Capital outlay | - | - | - | - |
| Renewal and replacements | - | - | - | - |
| Retirement of indebtedness | - | - | - | - |
| Total Restricted Expenditures | 8,201,191 | 11,703,007 | 9,843,965 | 1,859,042 |
| Net Transfers | - | - | - | - |
| Change in net position-budgetary basis | - | - | - | - |
| Ending Fund Balance | \$ - | \$ - | \$ - | \$ - |

WESTERN NEW MEXICO UNIVERSITY
UNRESTRICTED - INSTRUCTION & GENERAL
REVENUES, EXPENDITURES, AND BEGINNING AND ENDING BALANCES
BUDGET COMPARISONS
YEAR ENDED JUNE 30, 2017

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|--|-------------------------|-------------------------|-------------------------|---|
| Beginning Fund Balance | \$ 2,547,310 | \$ 6,467,456 | \$ 6,467,456 | \$ - |
| Revenues | | | | |
| Tuition | 10,956,916 | 11,051,495 | 11,137,109 | 85,614 |
| Miscellaneous fees | 1,603,746 | 2,085,594 | 2,155,464 | 69,870 |
| Government appropriation - federal | - | - | - | - |
| Government appropriations-state | 18,101,700 | 17,196,600 | 17,196,610 | 10 |
| Government appropriations-local | - | - | - | - |
| Government grants/contracts - federal | 10,000 | 10,000 | 26,719 | 16,719 |
| Government grants/contracts - state | - | - | - | - |
| Government grants/contracts -local | - | - | - | - |
| Private grants/contracts | - | - | - | - |
| Endowments | - | - | - | - |
| Land and permanent fund | 176,711 | 176,711 | 271,090 | 94,379 |
| Private gifts | - | - | - | - |
| Sales & service | 63,770 | 55,430 | 80,550 | 25,120 |
| Other sources | 222,100 | 264,440 | 365,085 | 100,645 |
| <i>Total Unrestricted Revenues</i> | <u>31,134,943</u> | <u>30,840,270</u> | <u>31,232,627</u> | <u>392,357</u> |
| Expenditures | | | | |
| Instruction | 14,784,505 | 14,798,593 | 14,189,069 | 609,524 |
| Academic support | 1,865,072 | 1,852,748 | 1,758,032 | 94,716 |
| Student services | 2,217,652 | 2,272,195 | 2,184,473 | 87,722 |
| Institutional support | 7,547,689 | 8,768,321 | 8,067,697 | 700,624 |
| Oper. & maint. of plant | 3,120,086 | 3,029,207 | 2,833,475 | 195,732 |
| <i>Total Unrestricted Expenditures</i> | <u>29,535,004</u> | <u>30,721,064</u> | <u>29,032,746</u> | <u>1,688,318</u> |
| Net Transfers | (1,517,265) | (3,937,456) | (4,374,247) | 436,791 |
| Change in net assets-budgetary basis | 82,674 | (3,818,250) | (2,174,366) | 1,643,884 |
| <i>Ending Fund Balance</i> | <u><u>2,629,984</u></u> | <u><u>2,649,206</u></u> | <u><u>4,293,090</u></u> | <u><u>1,643,884</u></u> |

WESTERN NEW MEXICO UNIVERSITY
 RESTRICTED - INSTRUCTION & GENERAL
 REVENUES, EXPENDITURES, AND BEGINNING AND ENDING BALANCES
 BUDGET COMPARISONS
 YEAR ENDED JUNE 30, 2017

| | Original Budget | Final Budget | Actual | Variance Favorable/ (Unfavorable) |
|---------------------------------------|--------------------|-----------------|---------|---|
| Beginning Fund Balance | \$ - | \$ - | \$ - | \$ - |
| Restricted Revenues | | | | |
| Tuition | - | - | - | - |
| Miscellaneous fees | - | - | - | - |
| Government appropriation - federal | - | - | - | - |
| Government appropriation - state | - | - | - | - |
| Government appropriation - local | - | - | - | - |
| Government grants/contracts - federal | 169,800 | 188,100 | 360,496 | 172,396 |
| Government grants/contracts - state | 145,290 | 477,170 | 166,784 | (310,386) |
| Government grants/contracts -local | - | 5,834 | 1,078 | (4,756) |
| Private grants/contracts | - | - | - | - |
| Endowments | - | - | - | - |
| Land and permanent fund | - | - | - | - |
| Private gifts | - | - | - | - |
| Sales & service | - | - | - | - |
| Other sources | - | - | - | - |
| <i>Total Restricted Revenues</i> | 315,090 | 671,104 | 528,358 | (142,746) |
| Restricted Expenditures | | | | |
| Instruction | 119,550 | 416,210 | 298,266 | 117,944 |
| Academic support | 51,966 | 92,750 | 80,958 | 11,792 |
| Student services | 47,642 | 44,722 | 44,722 | - |
| Institutional support | 90,880 | 110,390 | 98,482 | 11,908 |
| Oper. & maint. of plant | 5,052 | 7,032 | 5,930 | 1,102 |
| <i>Total Restricted Expenditures</i> | 315,090 | 671,104 | 528,358 | 142,746 |
| Net Tranfers | - | - | - | - |
| Change in net assets-budgetary basis | - | - | - | - |
| <i>Ending Fund Balance</i> | \$ - | \$ - | \$ - | \$ - |

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
YEAR ENDED JUNE 30, 2017

| Name of Bank | Account Type | Balance per bank statement | Balance per books |
|--------------------------------------|--------------|----------------------------|----------------------|
| <hr/> | | | |
| Wells Fargo, Silver City, NM | | | |
| Federal funds | Checking | \$ 11 | \$ 11 |
| Bond Debt Service | Checking | 1,420,661 | 1,420,661 |
| Operating | Checking | 6,836,664 | 6,669,125 |
| Wells Fargo Brokerage Services, LLC | | | |
| Money market (U.S. Govt. Agency) | Money Market | 2,153,438 | 2,153,438 |
| Bank of The Southwest, T or C, NM | | | |
| Operating | Checking | 1,000 | 1,000 |
| 1st National Bank, Centennial, CO | | | |
| Federal | Checking | 55,283 | 55,283 |
| Bank of New York (NMFA) | Reserve | 770,105 | 770,105 |
| Bank of Albuquerque (NMFA) | Reserve | - | - |
| Petty Cash | Cash on Hand | 5,530 | 5,530 |
| Watts Foundation | | | |
| Bank of America, Silver City, NM | | | |
| Operating | Checking | 1,338 | 1,338 |
| PRIMARY INSTITUTION CASH | | \$ 11,244,030 | \$ 11,076,491 |
| <hr/> | | | |
| First American Bank, Silver City, NM | | | |
| Operating | Checking | \$ 459,537 | \$ 451,515 |
| Money market | Money Market | 8,648 | 8,648 |
| Wells Fargo Bank, Silver City, NM | | | |
| Operating | Checking | 256,685 | 254,206 |
| Wells Fargo #75051999 | Money Market | 2,591,943 | 2,591,943 |
| Various investment accounts | | | |
| Charles Schwab #1453-1100 | Money Market | 7,401 | 7,401 |
| Charles Schwab #7807-1329 | Money Market | 2,901 | 2,901 |
| COMPONENT UNIT CASH | | \$ 3,327,115 | \$ 3,316,614 |
| <hr/> | | | |

WESTERN NEW MEXICO UNIVERSITY

SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

| Name of Bank/Broker | Investment Type | Market Value |
|---|--------------------|----------------------|
| Primary Institution | | |
| Wells Fargo, Silver City, NM | | |
| Held in Wells Fargo vault | Stock | \$ 1,539,246 |
| Moreton Capital Markets | | |
| Brokered Certificates of Deposit (39 banks) | CDs | 9,190,832 |
| New Mexico Finance Authority | Bond | |
| Government Revenue Bonds (2) | Bond | 302,417 |
| Federal Home Loan Bank | Bond | 1,767,568 |
| Watts Foundation | | |
| Bank of America, Silver City, NM | | |
| Certificate of Deposit | CD | 114,317 |
| Primary Institution Investments | | \$ 12,914,380 |
| Component Unit | | |
| Wells Fargo #75051999 | | |
| Fixed income mutual fund | | \$ 578,452 |
| Stock | | 3,477,257 |
| Real estate investment trust | | 614,364 |
| US Treasury bond | | 20,634 |
| Charles Schwab #7807-1329 | | |
| Stock | | 488,322 |
| Real estate investment trust | | 9,986 |
| Charles Schwab #1453-1100 | | |
| Limited partnership funds | | 145,669 |
| Held at WNMU Foundation | | |
| BP Amoco stock | | 8,663 |
| Component Unit Investments | | \$ 5,343,347 |

Note: The University has an undivided interest in the State of New Mexico Land Grant Permanent Fund. For further detail for the types of investments held in the Land Grant Permanent Fund, please refer to the separately issued June 30, 2017 financial statements of the State Investment Council.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)
YEAR ENDED JUNE 30, 2017

| | Bank Balance | | | | | Total |
|--|---|--|---------------------------------------|--|---|--------------------------|
| | Bank of America (Watts) Silver City, NM | Bank of the Southwest T or C, NM | 1st National Bank Centennial CO | Wells Fargo Silver City New Mexico | Wells Fargo Brokerage Services, LLC | |
| FUNDS ON DEPOSIT | | | | | | |
| Demand deposits | \$ 1,338 | \$ 1,000 | \$ 55,283 | \$ 8,257,336 | \$ 2,153,438 | \$ 10,468,395 * |
| Certificates of Deposit | - | - | - | - | - | - |
| LESS Money Market (U.S. Govt. Agency) | - | - | - | - | (2,153,438) | (2,153,438) |
| FDIC INSURANCE | | | | | | |
| Demand deposits, time deposits | (1,338) | (1,000) | (55,283) | (250,000) | - | (307,621) |
| TOTAL UNINSURED PUBLIC FUNDS | \$ - | \$ - | \$ - | \$ 8,007,336 | \$ - | \$ 8,007,336 |
| * Does not include Cash Held By Others (New Mexico Finance Authority) with no collateral requirements Debt Service Funds (restricted) | | | | | | Bank of NY \$ 770,105 |
| AMOUNT SUBJECT TO 102% COLLATERAL | | | | \$ - | | |
| AMOUNT SUBJECT TO 50% COLLATERAL | | | | \$ 8,007,336 | | |
| Fifty percent collateral requirement per Section 6-10-17 NMSA for above | | | | \$ 4,003,667 | | |
| One hundred two percent collateral requirements per Section 6-10-10 (H) NMSA | | | | - | | |
| AMOUNT OF COLLATERAL REQUIRED | | | | \$ 4,003,667 | | |

PLEGDED COLLATERAL

| | Safe- keeping Location | Type of Security | | | | | |
|--|------------------------------|------------------------|-------------|-------------|-----------------------|-------------|-----------------------|
| Wells Fargo | | FNMA | \$ - | \$ - | \$ 5,047,000 | \$ - | \$ 4,329,223 |
| Wells Fargo | | FNMA | - | - | 1,001,459 | - | 538,219 |
| Wells Fargo | | FNMA | - | - | - | - | - |
| Total Pledged Collateral | | | - | - | 6,048,459 | - | 4,867,442 |
| Deficit/(excess) of pledged collateral over the required amount | | | \$ - | \$ - | \$ (2,044,792) | \$ - | \$ (2,044,792) |

Note: As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total is insured up to at least \$250,000.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET POSITION LIABILITY
EDUCATIONAL RETIREMENT BOARD (ERB) PLAN
LAST 10 FISCAL YEARS*

| | 2017 | 2016 | 2015 |
|---|---------------|---------------|---------------|
| The University's proportion of the net pension liability (asset) | 0.60% | 0.59% | 0.63% |
| Proportionate share of the net pension liability (asset) | \$ 43,423,280 | \$ 38,205,508 | \$ 35,968,347 |
| Covered-employee payroll | \$ 18,981,913 | \$ 16,104,522 | \$ 18,672,020 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 228.76% | 237.23% | 192.63% |
| Plan fiduciary net position as a percentage of the total pension liability | 37.30% | 50.82% | 36.10% |

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

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF CONTRIBUTIONS
EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN
LAST 10 FISCAL YEARS*

| Plan | Contractually Required Contribution | Contributions Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|--------------------|---|---|--|--|--|
| <u>2017</u> | | | | | |
| State Employee | \$ 2,356,262 | \$ 2,356,262 | \$ - | \$ 16,951,505 | 13.9% |
| ARP | \$ 48,019 | \$ 48,019 | \$ - | \$ 1,600,377 | 3.0% |
| <u>2016</u> | | | | | |
| State Employee | \$ 2,274,358 | \$ 2,274,358 | \$ - | \$ 16,362,285 | 13.9% |
| ARP | \$ 44,666 | \$ 44,666 | \$ - | \$ 1,488,892 | 3.0% |
| <u>2015</u> | | | | | |
| State Employee | \$ 2,243,923 | \$ 2,243,923 | \$ - | \$ 16,166,901 | 13.9% |
| ARP | \$ 45,209 | \$ 45,209 | \$ - | \$ 1,383,300 | 3.3% |

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

WESTERN NEW MEXICO UNIVERSITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1. CHANGES OF BENEFIT TERMS

The COLA and retirement eligibility benefits changes in recent years are described in the *Benefits Provided* subsection of the financial statement note disclosure NOTE 11.
EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN

NOTE 2. CHANGES OF ASSUMPTIONS

The Board of Trustees approved the following economic and demographic assumptions used in the fiscal year 2016 actuarial calculation of the total pension liability on December 6, 2016:

1. Wage inflation of 3.75%
2. Update the mortality tables to incorporate generational improvements
3. Update demographic assumptions to use currently published tables, which may result in minor calculation changes
4. Maintain in current 3.00% inflation assumption
5. Retain net 4.75% real return assumption
6. Retain 7.75% nominal return assumption
7. No change to COLA assumption of 2.00% per year
8. Maintain current payroll growth assumption of 3.50%
9. Maintain experience-based rates for members who joined NMERB by June 30, 2010
10. Remove population growth assumption for projections
11. Lower population growth from 0.50% to zero (no impact on valuation results)

See also the *Actuarial Assumptions* subsection of the financial statement note disclosure NOTE 11. EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

| Federal Grantor/Pass-Through/Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|--|-------------------------|
| <u>U.S. Department of Education</u> | | | |
| Direct Student Financial Aid | | | |
| Pell Grant Program - Pell | 84.063 | | \$5,037,832 |
| College Work-Study Program - FWS | 84.033 | | 179,345 |
| Supplemental Educational Opportunity Grants - SEOG | 84.007 | | 125,948 |
| Student Direct Loans | 84.268 | | 17,140,683 |
| TEACH Grant | 84.379 | | 13,329 |
| <i>Total Direct Student Financial Aid</i> | | | 22,497,137 |
| Pass-Through NM Department of Education | | | |
| Adult Basic Education-Basic Grants to States - ABE#2 | 84.002 | V002A150032 | 74,808 |
| Career and Technical Education-Basic Grants to States - Carl Perkins | 84.048 | 850-000-0910-24177 | 127,341 |
| Improving Teacher Quality State Grants | 84.367 | 17-950-1200-00006 | 18,329 |
| <i>Total Indirect U.S. Department of Education</i> | | | 220,478 |
| Total U.S. Department of Education | | | \$22,717,615 |
| <u>Research and Development</u> | | | |
| National Science Foundation | | | |
| Direct National Science Foundation | | | |
| Computer and Information Science and Engineering - CyberInfrastructure | 47.070 | | \$ 269,142 |
| Biological Sciences - NSF-NM Spider Wasps | 47.074 | | 31,561 |
| Biological Sciences - NSF - Endophyte | 47.074 | | 56,658 |
| Education and Human Resources - NSF NOYCE Capacity Building | 47.076 | | 39,300 |
| Biological Sciences - NSF-NM Digital Forensics | 47.076 | | 21,469 |
| <i>Total Direct National Science Foundation</i> | | | 418,130 |
| Pass-Through (NSF) | | | |
| Office of CyberInfrastructure - NM EPSCoR | 47.070 | 06307-874Q | 2,362 |
| Education & Human Resources - NM AMP | 47.076 | HRD-13050111 01641Q | 5,850 |
| <i>Total Indirect National Science Foundation</i> | | | 8,212 |
| Total National Science Foundation | | | \$ 426,342 |
| Total Research and Development | | | \$ 426,342 |
| Department of Health and Human Services | | | |
| Pass-Through NM Department of Children, Youth and Families | | | |
| Foster Care Title IV-E - Title IV-E Social Work | 93.658 | 15-690-17362-1 | \$ 90,311 |
| Job Opportunities for Low-Income Individuals - Assistance Program | 93.596 | 14-690-00-15996-1 | 525,594 |
| Biomedical Research and Research Training | 93.859 | 5P20GM103451-14 | 51,152 |
| Assistive Technology | 93.464 | 16-645-900-002 | 30,000 |
| Total Health and Human Services | | | \$ 697,057 |
| US Department of the Interior | | | |
| Native American Graves Protection and Repatriation Act | 15.922 | NPS NAGPRA | \$ 20,193 |
| Total Direct USDI | | | \$ 20,193 |
| Other | | | |
| Program for the Arts - Partnership Agreements | 45.025 | | \$ 950 |
| Small Business Development Centers - Small Business Development | 59.037 | 9-603001-Z-0032-21 | \$ 20,689 |
| Total Federal Assistance | | | \$ 23,882,846 |

WESTERN NEW MEXICO UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards includes all federal assistance to the University that had activity during 2017 or accrued revenue at June 30, 2017. This schedule has been prepared on the accrual basis of accounting. Revenues are recorded for financial reporting purposes when the University has met the qualifications for the respective program.

NOTE 2. STUDENT FINANCIAL ASSISTANCE

The University administers the Perkins Loan Program. Total outstanding loans under this US Department of Education program at June 30, 2017, were \$707,547. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2017, were \$69,622. The schedule of Federal Expenditures of Federal Awards only includes an amount which represents administrative costs and additional advances, including the University's matching requirement expended for the year ended June 30, 2017.

During the fiscal year ended June 30, 2017, the University processed \$17,140,683 of new loans under the Direct Guaranteed Student Loan Program, in addition to Stafford Loans, Parents Loans for Undergraduate Students, and Supplemental Loans for Students in the amount of \$440,404.

NOTE 3. INDIRECT COST RATE

The amount expended includes \$175,156 claimed as an indirect cost recovery using an approved indirect cost rate of percent. The University has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4. CONTINGENCIES

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Tim Keller
New Mexico Office of the State Auditor
Board of Regents
State of New Mexico Western New Mexico University
Silver City, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the University as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University basic financial statements, and the related budgetary comparisons of the University, presented as supplemental information, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2017-005.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies as 2017-001 through 2017-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-007.

The University's Response to Findings

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

Purpose of this Report

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



October 26, 2017



**Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over
Compliance Required by Uniform Guidance**

Tim Keller
New Mexico Office of the State Auditor
Board of Regents
State of New Mexico Western New Mexico University
Silver City, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the State of New Mexico Western New Mexico University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items to be significant deficiencies as 2017-006.

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

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

A handwritten signature in black ink, appearing to read "M.P. Group, Inc." followed by a flourish.

October 26, 2017

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION I . SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of Auditor's Report issued:

Unmodified

Internal Control Over Financial Reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? 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 deficiencies identified that are not considered to be material weaknesses? X Yes No

Type of Auditor's Report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516? X Yes No

Identification of Major Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| 84.063, 84.033, 84.007, 84.268, 84.379 | Student Financial Assistance Cluster |

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II . FINANCIAL FINDINGS

CURRENT STATUS ON PRIOR YEAR FINDINGS:

2015-003 Annual Inspection of Fixed Assets **Resolved**

CURRENT STATUS ON PRIOR YEAR FINDINGS FOR FOUNDATION:

2016-001 Cash Disbursements Lack of Proper Authorization **Resolved**

2016-002 Cash Receipts – Segregation of Duties **Resolved**

2016-003 Review and Approval of Journal Entries **Resolved**

CURRENT YEAR FINDINGS: UNIVERSITY

2017-001 Early Childhood Development Center - Billings and Cash Receipts

Condition

In FY 2017, the University hired an independent CPA firm to perform agreed upon procedures on the Early Childhood Development Center (ECDC). ECDC does not have adequate communication related to billings and cash receipts. The ECDC has a significant number of options relating to billings for services, such as payments from the New Mexico Children Youth and Families Department, discounts for students, and fee waivers . These options are applied at the ECDC level, and reconciliations are not performed for all services between the Business Office and ECDC. Specifically, we found the following internal control deficiencies related to communication between the Business office and the ECDC:

Deficiency 1- ECDC waives registration fees for certain families based on criteria only known to ECDC. Therefore, the Business Office has no way of reconciling fees charged to amounts received. The waivers are granted by the budget analyst, but are not approved by the appropriate supervisory personnel.

Deficiency 2 – CYFD published, annually, the fees they will reimburse for various categories of children. Based on this fee schedule and the child category, the Budget Analyst charges the client accounts. However, CYFD pays based on the number of days or weeks the student is enrolled, and the Budget Analyst does not bill on the same basis. This requires adjustment to the client accounts receivable in almost every instance.

Criteria

Sound internal control policies requires that the Business Office, which is tasked with accounting for all University functions be informed of policies related to discounts and fee waivers granted by the ECDC. Further any such discounts and waivers should be approved by the appropriate supervisory personnel. Finally, fee reimbursements from CYFD should be recorded as receivables on the same basis as calculated by CYFD.

Effect

These deficiencies require significant time of the Budget Analyst and the Business Office to reconcile fees charged to fees collected and budgeted program revenues are, in most instances, overstated.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II . FINANCIAL FINDINGS

2017-001 Early Childhood Development Center - Billings and Cash Receipts
(Continued)

Cause

The ECDC has worked as an autonomous unit, without oversight from the Business Office, collecting cash and making fee adjustments.

Recommendation

Deficiency 1 - Each semester, ECDC should provide a listing to the Business Office of attendees, and whether the registration fee applies. In cases where the registration fee does not apply, a specific reference to the policy authorizing the fee waiver should be made.

Deficiency 2 - Anticipated receivables should be recorded based on the CYFD fee schedule and calculation, which would alleviate the need to adjust all CYFD accounts. A reconciliation spread sheet should be developed between the Business Office and the ECDC Budget Analyst to perform these calculations. Any adjustments to CYFD receivables should be approved by the appropriate supervisory personnel, independent of the person making the adjustments

Agency Response

1. A process has been implemented as of November 1, 2017. Childcare application fee reversals will be processed by the Business Office. The ECP Budget Analyst will prepare a memo with justification for reversal and amount. Executive Director of Early Childhood Programs will approve memo and email to the Business Office for processing.

2. A process has been implemented as of November 1, 2017. The Business Office will create a spreadsheet to consider CYFD published amounts. The CYFD estimate charged to the student account will be posted based on the estimated amount on the spreadsheet. A memo will be created by the ECP Budget Analyst and sent to the Executive Director of ECP for approval of CYFD adjustments. The memo will then be forwarded to the Business Office for processing.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II . FINANCIAL FINDINGS

2017-002 Early Childhood Development Center-Cash Receipting

Condition

In FY 2017, the University hired an independent CPA firm to perform agreed upon procedures on the Early Childhood Development Center (ECDC). ECDC does not have a cash receipting policy that provides adequate internal control over receipts. Specifically, we found the following deficiencies in the collection and deposit of cash:

Deficiency – Cash is collected at two locations by the ECDC, the front desk at ECDC and at the Growing Tree off-campus program at Silver Schools. Both places issue receipts, however, there is no control over the numerical sequence of receipts, and the receipt books are not issued by the Business Office. Once the cash is receipted, both locations prepare reports and provide them, along with the funds, to the Budget Analyst, who prepares her own report for deposit to the Business office. Any other reports prepared by the original receptors' are discarded. The reports provided to the Business office do not provide a receipt number or date of collection. In our testing of receipts from July 1, 2015, through May 12, 2017, we found the following:

Eleven (11) instances where receipts issued by Growing Tree, totaling \$421, were not included in reports or deposits to the Business Office. We were unable to determine if these instances indicated receipting errors or loss of deposits.

Eight (8) instances where receipts written at the ECDC front desk, totaling \$445 were not included in reports or deposits to the Business Office. We were unable to determine if these discrepancies were the result of receipting errors or loss of deposits.

In one instance, in trying to determine if a summer program was feasible, ECDC collected registration fees totaling \$2,100 from prospective participants, but held the funds on-site until a determination was made that the summer program would not be initiated. The funds, either cash or check, were refunded to the prospective participants. The Business Office was unaware of and did not participate in these transactions.

In most instances, the funds collected were not deposited to the Business Office within one business day, as required by University policy, and in some cases, the lag was as long as a month.

The ECDC has retained its own cash box, presumably for incidental expenditures. It is assumed that certain fees, such as parent meals and tee shirt sales, etc., are retained in furtherance of the ECDC programs. However, this is contrary to University policy that requires that any cash boxes be issued by the Business office, and reconciled periodically. The cash box had less than \$100 when examined during testing.

Criteria

Sound internal control over cash receipting requires control of cash receipting by the Business Office, including the issuance and reconciliation of pre-numbered receipt books to deposits made. Further, all funds should be deposited daily in accordance with University policy.

Effect

Without a numerical sequence of receipts which is supplied by the Business Office, and reconciled on the periodic reports, there is an increased likelihood of conversion of funds without the necessity of collusion.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II . FINANCIAL FINDINGS

2017-002 Early Childhood Development Center-Cash Receipting (Continued)

Cause

The ECDC is operating as an autonomous unit and does not adhere to cash collections procedures applicable to other University departments as specified in University policy.

Recommendation

With any entity, centralized collections are preferable, and Western New Mexico University is no exception. The Business Office is equipped and staffed to handle cash receipts as a part of its normal duties, whereas the ECDC is tasked with early childhood development, and client collections are an ancillary duty for staff. The priority recommendation would be to eliminate cash collections by the ECDC, and have all payments made directly to the Business Office.

Agency Response

Marketplace has been established for online payment of application fees and childcare for both the ECDC and Growing Tree locations.

As of July 1, 2017, cash or checks will no longer be accepted at the ECDC location. Payments via cash or check will be made directly to the Business Office. Growing Tree will be provided with pre-numbered receipt books checked-out through the Business Office. Deposits will be submitted daily, or as funds are collected, directly to the Business Office. The deposit spreadsheet will be updated to include receipt number and collection date, and a copy of the handwritten receipt will accompany the deposit.

Since all deposits will be submitted directly to the Business Office, refunds will be issued based on WNMU refund policy.

As of July 1, 2017, a change fund will not be kept by either Growing Tree or the ECDC. Cash boxes for events (t-shirt sales, meals, etc.) will be checked out from the Business Office. Deposits for events will be submitted to the Business Office within one business day, following the Cash Handling Policy.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II . FINANCIAL FINDINGS

2017-003 Early Childhood Development Center - Meal Reporting

Condition

In FY 2017, the University hired an independent CPA firm to perform agreed upon procedures on the Early Childhood Development Center (ECDC). The meal requests for reimbursement were reduced by the grantor by 11 meals in the October 16, 2016 claim and 8 meals in the December 2016 claim, because the grantor concluded that the meals exceeded the average daily attendance. The business office does not receive a copy of the meal reimbursement requests to compare to the actual collections as an internal control device.

Criteria

Meal count reimbursement requests should not exceed the average daily attendance, and the Business Office should receive a copy of the meal reimbursement request, to compare to the amount received.

Effect

Although immaterial in relation to the total meals served, federal regulations have been violated.

Cause

Meal counts were miscounted for the periods in question.

Recommendation

Meal counts should be compared to average daily attendance prior to submission, to ensure over-billing does not occur, and supervisory personnel should be involved in this process.

Agency response

As of July 1, 2017, meal request documentation will be submitted by the requestor, via email, to the Business Office at the time of the request.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II . FINANCIAL FINDINGS

2017-004 Early Childhood Development Center - Counseling Billings

Condition

In FY 2017, the University hired an independent CPA firm to perform agreed upon procedures on the Early Childhood Development Center (ECDC). As related by ECDC staff, billing for counseling services is done by the counselor, and only for those with insurance coverage. While this may be appropriate, we could not determine the methodology related to these billing practices was formally approved by the University.

Criteria

Billing policies establish billing procedures, and supervisory reviews ensure these procedures are followed.

Effect

The internal control established by formal policy and supervisory review has not been established, which is necessary for any billing procedure.

Cause

The ECDC has operated as an autonomous unit and has not been integrated into the University internal control system.

Recommendation

The University should adopt a formal policy related to billings for counseling services, and provide that information to the billing person. In addition, supervisory personnel in the Business Office should be involved in the billing process.

Agency response

As of July 1, 2017, the Counseling Center will provide billing information to the Business Office with bill amount and healthcare provider. Adjustments and non-payments will be reported to the Business Office upon verification.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II . FINANCIAL FINDINGS

CURRENT YEAR FINDINGS: FOUNDATION

2017-005 – Prior Period Adjustment (Material Weakness)

Condition

In 1988, the Foundation was named as an income beneficiary in a trust agreement. The terms of the trust agreement could be changed any time up to the benefactor's death. That event occurred sometime prior to 2005. Upon that event, the Foundation became the beneficiary of a perpetual trust. No asset was recorded in the financial statements of the Foundation related to this perpetual trust. The Foundation had to restate the balance of net position at June 30, 2016.

Criteria

Accounting standards require that not-for-profit organizations record an asset related to its share of a perpetual trust agreement.

Cause

The Foundation personnel failed to recognize that the trust agreement represented an asset of the Foundation.

Effect

Total assets and permanently restricted net position is understated on the financial statements at the beginning of the year and had to be restated in the 2017 financial statements. Distributions from the trust are improperly recorded as gifts rather than investment income and changes in the value of the trust were ignored.

Recommendation

Renew all new agreements, wills, bequests and any other donor related actions and potential actions to determine if there is a possible recordable event that needs to be researched further.

Agency Response

The WNMU Foundation staff and policy and procedure board committee is reviewing all procedures and policies that affect gifts/contributions to the Foundation. Effective November 2017, we will review new agreements, wills, bequests and any other planned giving donor related actions and potential actions to determine if there is a possible recordable event that needs to be researched further for possible inclusion in the financial statements. The executive director will work closely with the Foundation Accountant and Donor Relations Specialist to review possible contributions and determine the appropriate actions at the initiation of any such gifts. Each foundation staff member will have a list of all planned giving agreements in their staff notebook for annual review.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III . FEDERAL FINDINGS

Funding Agency: U.S. Department of Education
CFDA #: 84.063 and 84.268
Program: Student Financial Assistance Cluster
Pass Through Entity - N/A

2017-006 - Return of Title IV Funds (Significant Deficiency)

Condition

During our test work of internal controls over the return of Title IV funds, we noted the following instances of non-compliance in our sample of twenty-four:

-Ten instances where the portion of the Title IV funds required to be returned to the Department of Education were improperly calculated. The error in our sample totaled approximately \$90.

It is difficult to determine the precise error in the entire population due to the variables regarding the amount of the aid accepted, the date of the each student's withdrawal, and the amount required to be returned. Since our sample represents approximately 12.5% of the population of students with Title IV fund returns, a simple extrapolation puts the potential error under \$1,000 and well under the questioned cost parameter.

Criteria

The total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except for scheduled breaks of at least five consecutive calendar days. (34 CFR section 668.22(f)(2))

Cause

An incorrect semester ending date was used for one of the semesters. The actual last day of classes for the semester was one day later than the date used to determine the total number of days in the payment period. The financial aid department was working with an incorrect schedule of events that misreported the last day of the semester.

Effect

The University was not in compliance with federal requirements for the return of Title IV funds; effectively underreporting the amount required to be returned.

Recommendation

The Student Financial Aid Office should review key dates against the official calendar published by the University and made available on the University's website. The University should incorporate a more thorough review process for the R2T4 forms to ensure that the calculated amount of Title IV funds to be returned is correctly input and reflected in the University's software.

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III . FEDERAL FINDINGS

Funding Agency: U.S. Department of Education
CFDA #: 84.063 and 84.268
Program: Student Financial Assistance Cluster
Pass Through Entity - N/A

2017-006 - Return of Title IV Funds (Significant Deficiency) (Continued)

Response

This finding resulted from the Office of Financial Aid utilizing an internal chart for the start and end dates of the semester to determine Return to Title IV calculations. It was not clear if the dates on the chart were in error or if the dates were changed at some point.

Beginning November 1, 2017 the Loan Officer will check the semester start and end dates in the Banner system against the published dates of the Academic Calendar to confirm that they match and to determine the dates of any semester breaks that exceed 5 days. If there are any inconsistencies, the Registrar will be contacted for resolution.

The Office of Financial Aid went back and confirmed that the calendar setup for the current semester (Fall 2017) is correct, and will follow the above procedures when creating the calendar within CPS Online for each semester going forward

WESTERN NEW MEXICO UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION IV . OTHER FINDINGS

2017-007 Stale Dated Checks (Other Noncompliance)

Statement of Condition ó During our test work of cash and cash equivalents, we reviewed the outstanding checklist for the accounts payable account and noted the University has outstanding checks greater than one year of \$4,332.47.

Criteria ó Good accounting controls require the University to remove stale dated checks or if appropriate follow New Mexico Uniform Unclaimed Property Act (1995) [7-8A-1 to 7-8A-31].

Cause – The University was aware of the stale dated checks, but does not have a process to evaluate them on a regular basis.

Effect óThe University may not in compliance with New Mexico Uniform Unclaimed Property Act (1995)

Recommendation ó The University should develop a process in which personnel responsible for reconciling the accounts should review the outstanding checks and determine what if any checks need to be sent to the State of New Mexico and write the remaining checks off the books.

Management's Response – The University will implement procedures to be put into place as part of the bank reconciliation process, to review outstanding checks, write off any that are over a year old, and submit them to the state as unclaimed property in accordance with the New Mexico Uniform Unclaimed Property Act (1995) [7-8A-1 to 7-8A-31] no later than December 1, 2017. In addition, the process will include review by the Assistant Vice President of Business Affairs, to ensure compliance.

WESTERN NEW MEXICO UNIVERSITY
EXIT CONFERENCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

EXIT CONFERENCE:

The exit conference was held October 26, 2017 and was attended by the following:

From Western New Mexico University:

Dr. Joseph Shepard, President
Kelley Riddle, Vice President of Business Affairs
Cynthia Martinez, Assistant Vice President of Business and Finance
Cheryl Hain, Student Financial Aid Director
Jerry Walz, Regent, President (Teleconference)
Carl Foster, Regent

From MP Group, Inc.:

Scott Peck, CPA
Michael L. Moore, CPA