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STATE OF NEW MEXICO
MESALANDS COMMUNITY COLLEGE

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

C O N T E N T S

State of New Mexico
Mesalands Community College

June 30, 2016

OFFICIAL ROSTER

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Mesalands Community College
Tucumcari, NM
and
Mr. Timothy Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Mesalands Community College (the College) as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the College's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons of the College presented as supplementary information, as defined by the Government Accounting Standards Board as of and for the year ended June 30, 2016, 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.

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Mesalands Community College as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity 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 budgetary comparison statements of the College for the year ended June 30, 2016 referenced as Schedules 1, 2, 3 and 4 in conformity with the budgetary basis of accounting more fully described in Note A, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note A, the financial statements of the College are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities that are attributable to the transactions of the College. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America (US GAAP).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-10, budgetary comparison information on pages 46-50, and pension schedules on pages 43-45 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.

Other Information

The accompanying schedules of pledged collateral, combining schedule of changes in account balances – agency fund, and multiple-year capital projects funded by general obligation revenue bond and severance tax bond capital outlay appropriations from the state required by 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 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 is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards, the pension statements and other schedules required by 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 auditing standards generally accepted in the United States of America. In our opinion, the schedules referred to above and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of vendor information, required by 2.2.2 NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016, on our consideration of the College's internal control over financial reporting and 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 College's internal control over financial reporting and compliance.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 15, 2016

The following discussion and analysis provides an overview of the financial position and activities of Mesalands Community College (MCC or the College) for the year ended June 30, 2016. This discussion should be read along with the accompanying financial statements and footnotes included therein. Management assisted Atkinson & Co., Ltd. in the preparation of the basic financial statements and related note disclosures and has prepared this discussion and analysis.

This management's discussion and analysis (MD&A) only includes financial information for fiscal year 2016.

Using Basic Financial Statements

The Statement of Net Position presents the assets, liabilities, net assets and deferred outflows and deferred inflows of the College as of the end of the fiscal year 2016. It is a point-in-time financial statement, the purpose of which is to give the readers a fiscal snapshot of the condition of Mesalands Community College. The statement presents end-of-year data concerning current and non-current assets, current and non-current liabilities, and net assets.

Change in total assets as presented in the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the SRECNP is to present the revenue received by the College as well as expenses, gains, and losses received or incurred by the College.

The Statement of Cash Flows presents the inflows and outflows of cash, summarized by operating, capital, financing, and investing activities. The statement is prepared using the direct method of cash flows, presenting gross amounts for the year's activities.

Financial Highlights

Net Position decreased by $933,183 or 5% in 2016 over net assets in 2015. The decrease is primarily due to year over year pension liability increases.

2016 total assets were decreased by $766,910 over total assets in 2015. The decrease is related to a decrease in both current assets and capital assets.

Total revenues in fiscal year 2016 were $8,120,373 as compared to $8,231,711 in fiscal year 2015. State appropriations account for the largest source of revenue at $4,539,747. During 2016, grants and contracts generated revenues of $1,596,857. In 2016, student tuition and fee revenue increased by $57,473, as compared to 2015.

Deferred Outflows in 2016 increased by $281,338, while Deferred Inflows decreased by $451,333. Both of these changes were influenced by pension related entries.

Reporting Entity

This financial report presents the basic financial statements and the budgetary comparison of the College.

The following table summarizes the College's assets, deferred outflows, liabilities, deferred inflows, and net position as of:

	Balance June 30, 2016	Balance June 30, 2015 as restated	Difference	% Change
Current assets	$ 4,585,700	$ 4,959,035	$ (373,335)	-7.5%
Capital assets, net	18,853,300	19,366,118	(512,818)	-2.6%
Assets held by others	728,851	609,608	119,243	19.6%
Total Assets	24,167,851	24,934,761	(766,910)	-3.1%
Deferred Outflows - pension related	947,792	666,454	281,338	42.2%
Total Assets and Deferred Outflows	$ 25,115,643	$ 25,601,215	$ (485,572)	-1.9%
Current Liabilities	$ 577,741	$ 606,553	$ (28,812)	-4.8%
Non-Current Liabilities	6,648,785	5,721,029	927,756	16.2%
Total Liabilities	7,226,526	6,327,582	898,944	14.2%
Deferred Inflows - pension related	138,674	590,007	(451,333)	-76.5%
Net Position				
Net investment in capital assets	18,853,300	19,366,118	(512,818)	-2.6%
Restricted net position	728,851	609,608	119,243	19.6%
Unrestricted net position	(1,831,708)	(1,292,100)	(539,608)	41.8%
Total Net Position	17,750,443	18,683,626	(933,183)	-5.0%
Total Liabilities, Deferred Inflows and Net Position	$ 25,115,643	$ 25,601,215	$ (485,572)	-1.9%

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year. Cash and cash equivalents as of June 30, 2016 equal $3,869,636, which make up a major share of the College's current assets.

Current liabilities are generally defined as amounts due within one year, and include accounts payable, payroll accruals, and accrued vacation. Current liabilities for 2016 were $577,741.

Non-current assets are capital assets, net of accumulation of depreciation, for 2016 were $18,853,300. The capital assets decreased due to normal depreciation charges for the year in excess of additions held by others was reconciled to external records and increased to actual additions.

For fiscal year 2016 the College has debt in the amount of $127,122 which consists of a 0% interest loan from the Office of the Governor of New Mexico that was initiated on October 5, 2011, with a term of 13 years. The current principal payment of the loan is in the amount of $12,782 per year.

Net Position

There was a significant decrease in Net Position due to an increase in pension liability.

Condensed Summary of Revenue, Expenses, Changes in Net Assets

	June 30, 2016	June 30, 2015 as restated	Difference	%
Operating Revenue	$ 3,069,324	$ 3,021,066	$ 48,258	1.6%
Operating Expense	9,053,556	8,583,559	469,997	5.5%
Operating Loss	(5,984,232)	(5,562,493)	(421,739)	7.6%
Non-Operating Revenue	4,827,170	4,800,985	26,185	0.5%
Loss before other revenues and capital items	(1,157,062)	(761,508)	(395,554)	51.9%
Other revenues and capital items	223,879	409,660	(185,781)	-45.4%
Decrease in net position	$ (933,183)	$ (351,848)	$ (581,335)	165.2%

Revenues in the reporting model are shown by source of funding. Operating revenues are generally defined as exchange transactions that are produced in the primary functions of the College, including instruction, public service, and auxiliary services. Non-operating revenues are generally defined as non-exchange transactions and include state appropriations, local tax levy, gifts, and interest income. Classified as non-operating revenue, state appropriations account for the majority of the College's revenue and provide much-needed support for the operation of the College.

Operating expenses for Mesalands Community College are presented in a functional format showing the major functions of the College, with expenses for instruction and for the support of instruction representing the majority of expenditures.

Total net assets (assets minus liabilities) are classified by the College's ability to use those assets to meet operating needs. Net assets that are restricted as to their use by the sponsoring agencies or donors are classified as non-expendable (for example permanent endowments) or expendable (contract or grant net assets). Unrestricted net assets may be used to meet all operating needs of the College.

General Budgetary Highlights

Pension reporting in GASB 68 has affected liabilities of the College and has caused an increase in the reporting of liabilities. Net pension liabilities are up almost $1,000,000, with a non-expendable amount of $729,000. This has resulted in a negative unrestricted expendable net position for the College.

The College made budget modifications during the fiscal year which were recorded through Board of Trustees approved Budget Adjustment Requests (BARs).

Factors Impacting Future Periods

The College has experienced enrollment growth over the last two fiscal years. Growth in expenses has outpaced revenue growth because of non-tuition paying students (dual enrollment and correctional) and decreases in state appropriation due to legislative action. The College projects this climate to continue and is working to implement actionable items to decrease expenses in relation to projected state appropriation support.

The College is also immediately engaging in the following activities to proactively respond to auditor recommendations:

- The College will establish procedures for recording and tracking the funds held by others on behalf of the College.
- Establish a formal, Board of Trustees approved, investment policy for the College, which also includes guidance for entities holding funds on the College's behalf. This will also include the formal adoption of a Memorandum of Understanding between the College and those entities that hold funds on its behalf.
- Implement a process of documenting the appropriate vendor files as necessary for sole source procurements.
- Development and implementation of a formal disaster recovery plan with arrangement for an offsite backup storage capability. This initiative is already underway with the infusion of over $100,000 from state severance bonds that will improve the College's technology infrastructure.
- Develop and implement a policy and procedure for the formal inventory of capital assets on an annual basis.
- The College will also refocus its efforts to ensure that (a) monthly Bank Reconciliations are verified by multiple employees, (b) receipts are always presented when purchases are made with institutional fuel cards, and (c) timely approvals are submitted for travel prior to occurrence.

Requests for Information

Questions concerning any of the financial information provided in this report or requests for additional information should be addressed to Amanda Hammer, Vice President for Administration Affairs, Mesalands Community College, 911 South Tenth Street, Tucumcari, New Mexico 88401.

State of New Mexico
Mesalands Community College

STATEMENT OF NET POSITION

Year Ended June 30, 2016

ASSETS	
Current Assets	
Cash and cash equivalents	$ 3,170,794
Student accounts receivable, net of allowance for doubtful accounts of $30,288	122,919
Due from grantors	249,849
Due from other agencies	112,547
Short-term investments	698,842
Inventories	214,185
Prepaid expenses	16,564
Total current assets	4,585,700
Noncurrent Assets	
Assets held by others	728,851
Capital assets, net	18,853,300
Total noncurrent assets	19,582,151
Total assets	24,167,851
DEFERRED OUTFLOWS OF RESOURCES	947,792

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

State of New Mexico
Mesalands Community College

STATEMENT OF NET POSITION - CONTINUED

Year Ended June 30, 2016

LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$	298,242
Student deposits		7,415
Unearned revenue		29,269
Compensated absences, current portion		230,033
Note payable, current portion		12,782
Total current liabilities		577,741
Noncurrent Liabilities		
Compensated absences, less current portion		46,167
Note payable, less current portion		114,340
Net pension liability		6,488,278
Total non-current liabilities		6,648,785
Total liabilities		7,226,526
DEFERRED INFLOWS OF RESOURCES		138,674
NET POSITION		
Net investment in capital assets		18,853,300
Restricted for nonexpendable endowments		728,851
Unrestricted		
Nonexpendable prepaid expenses and inventories		230,749
Expendable (deficit)		(2,062,457)
Total Net Position	$	17,750,443

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

State of New Mexico
Mesalands Community College

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2016

OPERATING REVENUES	
Federal grants and contracts	$ 1,596,857
Student tuition and fees	723,222
Sales and services of auxiliary enterprises	349,519
State and local grants and contracts	307,241
Other operating revenues	92,485
Total operating revenues	3,069,324
OPERATING EXPENSES	
Instruction and general	
Instruction	2,683,830
Institutional support	1,181,207
Academic support	696,644
Operations and maintenance of plant	632,379
Student support	629,078
Public Service	169,075
Student aid, grants and stipends	1,007,022
Depreciation	748,985
Pension expense	617,039
Auxiliary enterprises	292,963
Intercollegiate athletics	198,415
Internal services	151,851
Renewals and replacements	36,956
Other	8,112
Total operating expenses	9,053,556
Operating loss	(5,984,232)

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

State of New Mexico
Mesalands Community College

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CONTINUED

Year Ended June 30, 2016

NONOPERATING REVENUES	
State appropriations	$ 4,539,747
Local taxes	274,923
Interest and other investment income	12,500
Total nonoperating revenues	4,827,170
Loss before other revenues and capital items	(1,157,062)
OTHER REVENUES AND CAPITAL ITEMS	
Capital appropriations from state issued bonds	105,804
Contributions	63,832
Additions to permanent endowments	54,243
Total other revenues and capital items	223,879
Change in net position	(933,183)
Net position, beginning of year before restatements	18,160,480
Prior period restatements	523,146
Net position, beginning of year as restated	18,683,626
Net position end of year	$ 17,750,443

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

State of New Mexico
Mesalands Community College

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from student tuition and fees	$ 763,559
Receipts from grants and contracts	2,187,132
Receipts from sales and services of auxiliary enterprises	349,519
Other receipts	92,485
Payments to or on behalf of employees	(4,350,656)
Payment to suppliers for goods and services	(3,785,997)
Net cash used by operating activities	(4,743,958)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	4,539,747
Property tax revenues	277,530
Contributions	63,832
Additions to endowments	(65,000)
Net cash provided by noncapital financing activities	4,816,109
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(236,167)
Capital appropriations from state issued bonds	79,282
Notes Payable, net	(12,782)
Net cash provided by capital and related financing activities	(169,667)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	7,225
Net cash provided by investing activities	7,225
Decrease in cash and cash equivalents	(90,291)
Cash and cash equivalents, beginning of year	3,261,085
Cash and cash equivalents, end of year	$ 3,170,794

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

State Of New Mexico
Mesalands Community College

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2016

Reconciliation of net operating loss to net cash used by operating activities	
Operating loss	$ (5,984,232)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	748,985
Net pension expense	178,835
Deferred employer pension contributions	-
Employer pension actuarial assumptions and employer proportion of net pension liability	-
Employer pension actuarial and investment experience and proportion of total employer net pension liability	-
Changes in assets and liabilities	
Student accounts receivable	23,283
Due from grantors	283,034
Inventories	4,954
Prepaid expenses	963
Accounts payable and accrued expenses	(22,838)
Student deposits	35
Unearned revenue	17,019
Compensated absences	6,004
Net cash used by operating activities	$ (4,743,958)

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

State of New Mexico
Mesalands Community College

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND

June 30, 2016

ASSETS	
Cash on deposit	$ 35,228
Total Assets	$ 35,228
LIABILITIES	
Due to student groups	$ 35,228
Total Liabilities	$ 35,228

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Mesalands Community College was established as Tucumcari Area Vocational School (TAVS) under the Area Vocational School Act of New Mexico during the thirty-third Legislative Session of the State of New Mexico. In January 1979, an act of the Legislature authorized the establishment of an area vocational school in Tucumcari (Statutory Authority: Sections 21-17-1 through 21-17- 17 NMSA 1978). The school was authorized to offer programs of vocational education leading to certificates and diplomas.

In November 1993, the school was authorized by the New Mexico Commission on Higher Education to offer Associate of Applied Science degrees for each of its technical/vocational programs. The degree programs were implemented in the fall semester of 1994.

In June 1994, the Commission on Higher Education authorized the College to offer the Associate of Applied Science degree for each of its technical/vocational programs. The degree programs were implemented in the fall semester of 1994.

In 1994, the Board of Trustees authorized Tucumcari Area Vocational School to begin doing business as Mesa Technical College in order to more accurately represent the College to its varied constituents as a small community college.

In the fall semester 1995, Mesa Technical College implemented a pre-collegiate studies program and expanded its course offerings in general education. In the spring semester 1996, the College began expanding its offerings via distance learning, including the Electronic Distance Education Network (EDEN), a cooperative effort of the universities of New Mexico, PBS and the Internet.

In the spring semester of 1996, the College developed programs in paleontology and geology. Mesalands Dinosaur Museum and Natural Science Laboratories were planned, based on a partnership that developed between the College and the community in recognizing, owning, and promoting this region's rich heritage as one of the premier deposits of fossilized ancient life. The community continues to donate considerable time, energy, and resources to the museum for cataloging specimens and providing sites for further exploration.

The College launched an intensive effort to earn accreditation from the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools, and The Higher Learning Commission. Administration, faculty, and staff set forth on a fast-track to compress the two-year process normally needed to earn a site visit from NCA into a period of less than a year. In August 1997, these efforts were rewarded when NCA granted Mesa Technical College candidacy for accreditation. In August of 1999, Mesa was granted the status of initial accreditation by NCA, at which time the state allowed the College to begin offering the Associate of Arts degree.

In the fall of 1998, the College launched a new Intercollegiate Rodeo program in response to the desire of its students and the locale in which the College is situated.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Organization – Continued

With the College continuing to grow and mature, the College's name was changed to more adequately reflect its mission. On September 11, 2001, the Board of Trustees renamed the institution Mesalands Community College.

In the fall of 2008, the College launched a new program for Wind Technology Training in conjunction with the North American Wind Training and Research Center. The College, with funds provided from federal state and local sources has erected its own wind turbine on campus to provide educational opportunities and electricity for the College.

2. Basis of Presentation

The College presents its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The statement presentation required by GASB Statement 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities — an amendment of GASB Statement No. 34,* provides a comprehensive entity-wide perspective of the College's assets, liabilities, and net position, revenues, expenses and changes in net position, and cash flows.

The College early adopted Governmental Accounting Standards Board Statement No. 79 *Certain External Investment Pools and Pool Participants* (GASB 79), to address changes in the regulatory provisions referenced by previous accounting and financial reporting standards for certain external investment pools and their participants. Those provisions were based on the Investment Company Act of 1940, Rule 2a7 whereby external investment pool investments were measured at amortized cost. Rule 2a7 contains the Securities and Exchange Commission's (SEC) regulations that apply to money market funds and the SEC essentially eliminated Rule 2a7 in 2014. GASB 79 provides for continuation of amortized cost accounting and reporting for external investment pools such as the Local Government Investment Pool (LGIP) which is a 2a7-like pool instead of converting to fair value measurement. The New Mexico State Treasurer has elected to early implement GASB 79 and its participants qualify for accounting for the investment pool at amortized cost which approximates fair value. This statement is effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 and early application is encouraged.

In evaluating how to define the College for financial reporting purposes, management has evaluated the College'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 manifestations of this ability include, but are 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 t units is the scope of

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation – Continued

public service. Application of the criterion involves considering whether the activity benefits the College. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing or fiduciary relationships, regardless of whether the College is able to exercise oversight responsibilities. As required by U.S. GAAP, these basic financial statements present only the activities of the College. Mesalands Community College Foundation, Inc. (related party) is not a discretely presented component unit.

3. Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Government Accounting Standards Board (GASB) and the Higher Education Department's Financial Reporting for Public Institutions in New Mexico.

4. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from those estimates.

5. Budgetary Basis and Control

The Board adopts an annual budget for the current unrestricted and restricted funds and the unexpended plant funds that are prepared by the administration and approved by the Board, the State of New Mexico Commission on Higher Education, and the State Budget Division of the Department of Finance and Administration. To amend the budget, the College requires the following order of approval: (1) College President, (2) College Board Members, (3) Commission on Higher Education, and (4) State Department of Finance and Administration.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgetary Basis and Control – Continued

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for use by the College in subsequent years, per the General Appropriation Act.

Under Title 5 of the New Mexico Administrative Code, Chapter 3, Part 4, Paragraph 10 – Items of Budgetary Control: total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary basis 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; (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; and (5) each individual item of transfer between funds and/or functions. Budget revisions must be approved by the Executive Secretary of the New Mexico Department of Higher Education and then by the Budget Division of the Department of Finance and Administration.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with original maturities of three months or less.

7. Investments

Investments are made in accordance with the Constitution of the State of New Mexico and the policies of the Board of Regents. Investments consist of nonnegotiable certificates of deposit and mature within one year which the College's investments are exempt from the provisions of GASB 72, *Fair Value Measurement and Application*.

8. Accounts Receivable

The College records student accounts receivable at the time a student registers for classes. Provisions for uncollectable student accounts are recorded to maintain an adequate allowance for anticipated losses. A provision for uncollectible student accounts is recorded to maintain and adequate allowance for anticipated losses. The allowance for doubtful accounts includes consideration for the credit risk associated with the various receivables.

Accounts receivable also include amounts due from the Federal government and state and local governments in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. There were no accounts receivable due from the Federal or state and local governments deemed to be uncollectible.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Inventories

Inventories, consisting mainly of items held for resale, are valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

10. Assets Held by Others

Assets held by others consist of the College's endowment funds which are held at and invested by the Mesalands Community College Foundation. Investment income and other additions to endowment corpus are recorded as additions to endowments in the statement of revenues, expenses, and changes in net position.

11. Capital Assets

Capital assets are recorded at original cost, or fair value if donated. The College's capitalization policy for moveable equipment includes all items with a unit cost of $5,000 or more, and an estimated useful life 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. Software, whether purchased or developed for internal use, and library books are capitalized and depreciated under the college policies. Museum collection pieces are booked at estimated fair market value when received or internally developed in the College foundry. These pieces are deemed to appreciate in value and therefore no depreciation is accumulated on them.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

	Life in Years
Buildings and improvements	50
Land improvements	20
Leasehold improvements	10
Library books	10
Equipment	5-12

12. Income Tax Status

The College, 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 College are deductible by donors as provided under Section 170 of the Internal Revenue Code. During 2016, there was no unrelated business income received by the College.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Compensated Absences

The College accounts for the accumulated vacation leave on the accrual basis. At the time of separation eligible employees are paid for annual leave accrued, but not used up to the maximum allowable accrual for such employee. If an employee has completed at least one full year of employment at the College at the time of separation, they will receive one-third of the accumulated, unused sick leave the employee has accrued.

14. Unearned Revenue

Revenue for each academic session is reported within the fiscal year during which the instruction occurs. A portion of revenues for the summer session starting in May 2016 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2016.

Other unearned revenue consists of unexpended contributions for scholarships where the eligibility requirements have not yet been met.

15. Net Position

The College's net position is classified as follows:

Net Investment in Capital Assets represents the College's total investment in capital assets less accumulated depreciation and outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There are no unexpended debt proceeds as of June 30, 2016.

Nonexpendable Restricted Net Position represents those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. Restricted expendable net position is resources that the College is legally or contractually obligated to spend in accordance with imposed restrictions by third parties. Restricted nonexpendable net position consists of endowment funds in which third parties have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. The income generated from the principal may be expended or added to the principal. This classification contains $78,000 of net position restricted by enabling legislation.

Nonexpendable Unrestricted Net Position consists of inventories and prepaid expenses which are not in spendable form.

Unrestricted Net Position consists of those operating funds over which the governing board retains full control to use in achieving any of its authorized use.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Revenues and Revenue Recognition

Revenues are classified as operating or nonoperating according to the following criteria:

Operating revenues include activities that have the characteristics of an exchange transaction, such as a) student tuition and fees, net of scholarship discounts and allowances; and b) sales and services; and c) contracts and grants. Grant revenues are recognized when all eligibility requirements have been met.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as a) appropriations and state issued bond proceeds; b) property taxes; c) investment income; and d) contributions and gifts. The College reports all revenues received from derived tax revenues or imposed nonexchange revenues according to requirements of GASB 33 and 34.

Student tuition and fee revenue and auxiliary enterprises revenue 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 College, 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 non-governmental programs, are recorded as operating or nonoperating revenue in the College's financial statements. To the extent that revenue from such programs are used to satisfy tuition and fees, other student charges, and auxiliary enterprise charges the College has recorded a scholarship allowance.

The College engages in federal and state grant programs commonly referred to as “reimbursement type” programs. These programs require that the recipient (the College) must incur allowable costs as defined by the agreement types in order to draw down funds against the particular project. This is the principal eligibility requirement for the recognition of the revenue. Grant revenues are recognized when the underlying exchange transaction has occurred – that is when all eligibility requirements have been met. Upon incurring an allowable cost, the College simultaneously recognizes a receivable and revenue in the amount of the expenditures incurred. All other eligibility requirements or grants, as applicable, must also be satisfied.

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year and are available to the College in subsequent years.

The College periodically receives severance tax and general obligation bond appropriations for capital asset projects on the campus. Bond revenue from these appropriations is recorded only when eligibility requirements have been met. The eligibility requirements for capital projects financed by bonds are satisfied when all required documentation to support a drawdown of a bond fund is submitted and approved by the Board of Finance.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

17. Classification of Expenses

The College has classified its expenses as either operating or non-operating expenses according to the following criteria:

Operating expenses: Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) utilities, supplies, and other services; (3) professional fees; (4) depreciation expenses related to property, plant, and equipment, and (5) pension costs.

Non-operating expenses: Non-operating expenses include activities that have the characteristics of non-exchange transactions that are consistently applied as non-operating expenses by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

18. Agency Funds

Agency funds are used to account for resources the College holds for others. The College maintains cash accounts for several student clubs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of funds. The College is responsible for seeing that the assets in these funds are spent for their intended purpose. The finances of these funds are reported in a separate statement of fiduciary net position. The resources of these funds are excluded from the business-type activity financial statements because they cannot be used to finance the College's operations.

19. 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 New Mexico Educational Retirement Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are reported by ERB, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

20. Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.

21. Subsequent Events

Subsequent events have been evaluated through November 15, 2016, the date at which the financials were available to be issued. Management believes there are no material subsequent events that have arisen that would require adjustment or disclosure.

NOTE B – CASH AND INVESTMENTS

1. Cash

Cash and cash equivalents include cash on hand and cash in banks with various financial institutions. New Mexico State Statutes authorize the College to deposit cash with a bank, savings and loan association, or credit union whose deposits are insured by an agency of the United States. All cash deposits that exceed the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Shares Insurance Fund (NCUSIF) amount of $250,000, are required to be collateralized with eligible securities, as described by New Mexico State Statutes, in amounts equal to at least 50% of the College's carrying value of the deposits. Collateral pledged is held in safekeeping by other financial institutions. The pledged securities remain in the name of the financial institution.

A detail of the cash accounts at June 30, 2016 is included below:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Reconciled Balance
First National Bank of New Mexico	General	Checking	$ 2,475,538	$ (190,150)	$ 2,285,388
First National Bank of New Mexico	Payroll	Checking	3,356	(1,206)	2,150
Wells Fargo	General	Checking	881,472	513	881,985
Everyone's Federal Credit Union	Agency	Share Draft	35,225	-	35,225
			3,395,591	(190,843)	3,204,748
	Petty Cash	N/A	-	-	1,271
	Less: Agency fund cash	N/A	(35,225)	-	(35,225)
			$ 3,360,366	$ (190,843)	$ 3,170,794

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. As of June 30, 2016, the College's custodial credit risk was as follows:

Total deposits all banks	$ 3,360,366
Less: FDIC or NCUSIF coverage	500,000
Uninsured public funds	2,860,366
50% collateral required	1,430,183
Pledged collateral held by pledging banks' agents in the name of the College	(3,124,338)
Uninsured and un-collateralized	$ -

NOTE B – CASH AND INVESTMENTS – CONTINUED

2. Investments

Investments of the College consist of the following at June 30, 2016:

Name of Institution	Investment type	Balance per Custodian Statement	Reconciled Balance per Books
Tucumcari Federal Savings and Loan	Certificate of Deposit	$ 236,198	$ 236,199
Quay Schools Federal Credit Union	Certificate of Deposit	247,844	247,499
Everyone's Federal Credit Union	Certificate of Deposit	215,144	215,144
		$ 699,186	$ 698,842

Custodial credit risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The College does not have custodial credit risk policies for investments and does not have investments subject to custodial credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The College does not have a formal policy to limit its exposure to interest rate risk and does not have investments subject to interest rate risk.

NOTE C – ACCOUNTS RECEIVABLE AND DUE FROM GRANTORS AND OTHER AGENCIES

The College's accounts receivable at June 30, 2016 consists of the following:

	Gross	Allowance for Doubtful Accounts	Net
Student tuition and fees	$ 153,207	$ 30,288	$ 122,919
Grants receivable	249,849	-	249,849
State GO/STB bond receivable	105,804	-	105,804
Taxes receivable	6,743	-	6,743
Total accounts receivable	$ 515,603	$ 30,288	$ 485,315

Property taxes are required to be imposed prior to October 1 and attach as an enforceable lien on property within the district on January 1, however, they are due and payable in two equal installments on November 10 and April 10 of the following year, and become delinquent 30 days after the due date. The property taxes are collected by the Quay County Treasurer and remitted to the College in the month following the month of collection. Prior year's delinquent property tax amounts were not available from the Quay County Treasurer.

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Land	$ 822,495	-	-	$ 822,495
Museum collection	1,149,816	-	-	1,149,816
Construction in progress	-	144,169	-	144,169
Total assets not being depreciated	1,972,311	144,169	-	2,116,480
Leasehold improvements	22,373	-	-	22,373
Library books	252,524	-	-	252,524
Buildings and improvements	18,209,988	-	-	18,209,988
Equipment	5,834,245	91,998	-	5,926,243
Total depreciable assets	24,319,130	91,998	-	24,411,128
Total capital assets	26,291,441	236,167	-	26,527,608
Accumulated Depreciation				
Leasehold improvements	22,326	47	-	22,373
Library books	178,937	6,547	-	185,484
Buildings and improvements	3,500,536	471,358	-	3,971,894
Equipment	3,223,524	271,033	-	3,494,557
Total accumulated depreciation	6,925,323	748,985	-	7,674,308
Capital assets, net	$ 19,366,118	$ (512,818)	$ -	$ 18,853,300

Depreciation expense was $748,985 for the year ended June 30, 2016

NOTE E – COMPENSATED ABSENCES PAYABLE

Compensated absences activity for the year ended June 30, 2016 is as follows:

	June 30, 2015	Additions	Reductions	June 30, 2016	Amounts Due in One Year
Total compensated absences	$ 270,196	$ 46,168	$ (40,164)	$ 276,200	$ 230,032

NOTE F – OPERATING LEASES

The College 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 College 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 College. Total rent expense for the year ended June 30, 2016 was $76,800.

NOTE F – OPERATING LEASES – CONTINUED

The College entered into several annual lease agreements for land and equipment with Mesalands Community College Foundation, Inc. (a related party) which began July 1, 2015 and ended June 30, 2016. Monthly payments under this lease amount to $5,942 and subject to annual renewal.

NOTE G – LONG-TERM DEBT

On October 5, 2011, the College received an emergency loan from the New Mexico Board of Finance. The proceeds of the loan were used to make repairs to the roof of the main building on campus. The loan is noninterest bearing and was in the amount of $178,250. Thirteen annual payments of $12,782 are due beginning July 15, 2012, with a final payment of $12,084 due July 15, 2025.

Annual debt service requirements for the College's revenue bonds to maturity are as follows:

2017	$	12,782
2018		12,782
2019		12,782
2020		12,782
2021		12,782
2022-2025		63,212
Total	$	127,122

NOTE H – DEFINED BENEFIT RETIREMENT PLAN

Plan Description

The New Mexico Educational Employees Retirement Plan was created by the state's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer 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 agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Benefits Provided

A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and 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. A brief summary of Plan coverage provisions follows:

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 or 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.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date 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.

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. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the Plan is 100% funded. The COLA reduction was 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%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%.

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%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Benefits Provided – Continued

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. A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Contributions

The contribution requirements of defined benefit plan members and the College are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2016 employers contributed 13.9% of employees' gross annual salary to the Plan. Employees earning $20,000 or less contributed 7.90% and employees earning more than $20,000 contributed 10.70% of their gross annual salary. The College's contributions to the defined benefit plan were $438,204 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2015. At June 30, 2016, the College reported a liability of $6,488,278 for its proportionate share of the net pension liability. The College's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2015. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, the College's proportion was 0.10017%, which was a decrease of 0.0000103% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the College recognized pension expense of $617,039. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	$ -	$ 118,936
Changes in assumptions	223,166	
Net difference between projected and actual earnings on pension plan investments	-	19,738
Changes in proportion and differences between the College's contributions and proportionate share of contributions	286,422	-
The College's contributions subsequent to the measurement date	438,204	-
Total	$ 947,792	$ 138,674

$438,204 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date June 30, 2015, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized in pension expense as follows:

Year Ended June 30:	
2017	125,946
2018	109,532
2019	45,429
2020	90,116
	371,023

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Actuarial Assumptions

As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than $20,000 will contribute 10.70%. All members with an annual salary of less than $20,000 will contribute 7.90%.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table rates based on age and service. Adopted by ERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment, projected to 2015 using Scale AA (one year setback for females)

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Actuarial Assumptions – Continued

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 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.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2015 and 2014 for 30 year return assumptions are summarized in the following table:

Asset Class	2015 Long-Term Expected Real Rate of Return	2014 Long-Term Expected Real Rate of Return
Cash	1.50%	0.75%
Treasuries	2.00%	1.00%
IG Corp Credit	3.50%	3.00%
MBS	2.25%	2.50%
Core Bonds	2.53%	2.04%
TIPS	2.50%	1.50%
High Yield Bonds	4.50%	5.00%
Bank Loans	5.00%	5.00%
Global Bonds (Unhedged)	1.25%	0.75%
Global Bonds (Hedged)	1.38%	0.93%
EMD External	5.00%	4.00%
EMD Local Currency	5.75%	5.00%
Large Cap Equities	6.25%	6.75%
Small/Mid Cap	6.25%	7.00%
International Equities (Unhedged)	7.25%	7.75%
International Equities (Hedged)	7.50%	8.00%
Emerging International Equities	9.50%	9.75%
Private Equity	8.75%	9.00%
Private Debt	8.00%	8.50%
Private Real Assets	7.75%	8.00%
Real Estate	6.25%	6.00%
Commodities	5.00%	5.00%
Hedge Funds Low Vol	5.50%	4.75%
Hedge Funds Mod Vol	5.50%	6.50%

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Discount Rate

A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2015 and June 30, 2014. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. 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 pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

Sensitivity of the College's proportionate share of the net pension liability to changes in the discount rate

The following table presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the College'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%)
College's proportionate share of the net pension liability	$ 8,730,411	$ 6,488,278	$ 4,604,652

Pension plan fiduciary net position

Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for the year ending June 30, 2015 and 2014, which are publicly available at www.nmerb.org.

Funding Policy

The contribution requirements of plan members and the College are established in state statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The College's contributions to ERB (which include contributions related to the Alternative Retirement Plan) for fiscal years ending June 30, 2016, 2015, and 2014 were $438,204, $395,791, and $354,257, respectively, which is equal to the amount of the required contributions for each fiscal year.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Alternative Retirement Plan

Faculty and professional employees of New Mexico public universities and community colleges have the option of participating in the Alternative Retirement Plan (ARP), a defined contribution plan, in lieu of the Educational Retirement Act. They can opt to participate in either ERB's Defined Benefit Plan or ARP during the first 90 days of employment if they are in an eligible position. The benefit received upon retirement is based on the amount contributed by the employee during their career, subject to any investment gains or losses. Employees are 100% vested in both the employee and employer contributions upon enrollment in the ARP program, less a 3% administrative fee that is paid to the ERB.

Employees can make an annual election to switch to the ERB Defined Benefit Plan. After an employee has made contributions to the ARP for seven years, the employee has a 120-day window to enroll in the Defined Benefit Plan. Eligibility begins on the first day of the month after the date on which the employee has made seven years of contribution to the ARP. The seven-year mark is the only opportunity the employee will have to switch to the Defined Benefit Plan. If the employee makes the change, the employee cannot switch back to the ARP.

If the employees opt to move to the DBP, the money in the employee's ARP account will remain there. The employee must contribute to the Defined Benefit Plan for five years to vest in the Plan and be eligible for retirement benefits. The employee cannot purchase service credit for the time in which the employee was enrolled in the ARP; however, the seven years of participation in the ARP will count toward eligibility requirements to retire under the ERB Defined Benefit Plan. ARP participants can apply for a distribution of their ARP contributions upon separation from the College. ARP participants direct their own investments which are held at either TIAA-CREF or Fidelity, and retirement benefits are tied to the value of the assets in the account at retirement. Upon retirement, ARP participants have three options:

- a monthly annuity based on the retiree's estimated life span
- payments received over a fixed term of years, or
- a lump sum payment

The employee contributes 10.7% of their gross covered salary. ERB employers pay a 3% contribution rate to cover the actuarial impact on the Defined Benefit Plan attributable to employees participating in the ARP. The College's contribution is included in the amount remitted to ERB above.

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

Plan Description: Mesalands Community College contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment 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 the 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 post-employment 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.

NOTE I – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

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, 2016, the statute 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, 2016, that statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee 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 College's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were $66,336, $59,452 and $57,737 respectively, which equal the required contributions for each year.

NOTE J – RISK MANAGEMENT

The College is subject to risk of loss through areas of general liability, workers compensation, and natural disaster. To minimize the risk of financial loss, the College participates in the New Mexico Public School Insurance Authority (a risk pool of all education agencies within the State of New Mexico). The New Mexico Public School Insurance Authority acts as a common carrier of insurance. The assumption of risk is upon the payment of premiums by the College to the New Mexico Public School Authority and lies with the Authority. The Authority reevaluates premiums annually and Mesalands Community College's risk is limited to premiums paid and respective deductibles.

NOTE K – ENDOWMENTS

The College has donor-restricted endowments with the authority to use interest, income, dividends, or profits of endowments for specified purposes for the benefit of the institution and its students. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those required to be retained in perpetuity.

NOTE K – ENDOWMENTS – CONTINUED

Endowment income is reported each year based on investment activity for the year as "additions to endowments" on the statement of revenues, expenses and changes in net position. The College plans to adopt the State of New Mexico Uniform Prudent Management of Institutional Funds Acts (UPMIFA) (Chapter 46, Article 9A, NMSA 1978) in accounting for net appreciation/depreciation of endowments. Under UPMIFA, an institution may appropriate for expenditures or accumulate as much as it determines prudent for the uses, benefits, purposes, and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan. No endowment income made available for distribution for the established purpose during the year ended June 30, 2016.

NOTE L – ASSETS HELD BY OTHERS

The College has the following transactions with Mesalands Community College Foundation, Inc. (Foundation), a nonprofit organization dedicated to the support of the College. The Foundation and Mesalands have common Board members but the Foundation does not qualify as a component unit.

The Foundation holds for investment purposes 3 different endowment fund resources of the College. There is a faculty endowment in the amount of $75,000 originally received from the Legislature and two endowments established with federal funding in the amount of $627,924 including a current year addition of $130,000 to these endowments. The principal amounts are nonexpendable interest. Dividends are available for amortized purposes annually.

See also Note F.

NOTE M – RESTATEMENT OF NET POSITION

The statement of net position was restated in the amount of $523,148 which consists of the value of endowment assets that were not recorded by the College of $534,608 and the College's corrections of prior year balances (mostly accounts receivable) of ($11,460).

NOTE N – NEW ACCOUNTING STANDARDS

GASB 74

Governmental Accounting Standards Board Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is intended to enhance the decision-usefulness of the financial reports of OPEB plans, their value for assessing accountability and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. GASB 74 basically parallels GASB 67 and replaces Statements No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 74 requires enhanced note disclosures and is effective for financial statements for fiscal years beginning after June 15, 2016 (FY 17). Management has not yet fully determined the impact of GASB 74.

GASB 75

Governmental Accounting Standards Board Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). Management has not yet fully determined the impact of GASB 75.

GASB 79

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79) established specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. This statement could apply to the LGIP and SIC pooled fund that the Institute invests in. GASB 79 is effective for periods beginning after June 15, 2016 (FY17) and early adoption is encouraged. The Institute has elected to early adopt GASB 79. See Note A.

NOTE N – NEW ACCOUNTING STANDARDS – CONTINUED

GASB 80

GASB Statement No. 80, *Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14* (GASB 80) amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The objective of GASB 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement should have no effect on the reporting of the Institute's existing component units as they are part of the exception noted above. GASB 80 is effective for fiscal years beginning after June 15, 2016 (FY17). Management has not yet fully determined the impact of GASB 80.

GASB 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81) requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts - or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements - in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. Management will evaluate the effect of this statement on the Institute's financial statements as there may be split-interest agreements associated with endowments. GASB 81 is effective for fiscal years beginning after December 15, 2016 (FY18).

NOTE N – NEW ACCOUNTING STANDARDS – CONTINUED

<u>GASB 82</u>

Governmental Accounting Standards Board Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No.73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The Institute is affected only by the first item which changes the RSI information presented from "covered-employee payroll" which is the payroll of employees that are provided with pensions through the pension plan to "covered payroll" which is the payroll on which contributions to a pension plan are based. GASB 82 is effective for financial statements for fiscal years beginning after June 15, 2016 (FY17) though earlier application is encouraged. The Institute will apply the provisions of this statement in the current year.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY EDUCATIONAL RETIREMENT BOARD (ERB) PENSION PLAN – LAST 10 FISCAL YEARS*

June 30, 2016

Year Ended June 30	College's proportion of the net pension liability	College's proportionate share of the net pension liability	College's covered payroll	College's proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.09774%	$ 5,576,772	$ 2,892,393	192.8%	66.54%
2016	0.10017%	$ 6,488,278	$ 2,734,962	237.2%	63.97%

* Years presented represent those for which information is available.

State Of New Mexico
Mesalands Community College

SCHEDULE OF CONTRIBUTIONS
EDUCATIONAL RETIREMENT BOARD (ERB)
PENSION PLAN – LAST 10 FISCAL YEARS*

June 30, 2016

Year Ended June 30	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	College's covered payroll	Contributions as a percentage of covered payroll
2015	$ 395,767	$ 395,767	$ -	$ 2,892,393	13.68%
2016	$ 438,204	$ 438,204	$ -	$ 2,734,962	16.02%

* Years presented represent those for which information is available.

NOTES TO DEFINED BENEFIT RETIREMENT PLAN RSI

For the Year Ended June 30, 2016

NOTE A – 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 General Information on the Pension Plan.

NOTE B – CHANGES OF ASSUMPTIONS

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on June 12, 2015, ERB implemented the following changes in assumptions for fiscal year 2015.

1. Fiscal year 2015 valuation assumptions that changed based on this study:

    a. Lower wage inflation from 4.25% to 3.75%
    b. Lower payroll growth from 3.50% to 3.25%
    c. Minor changes to demographic assumptions
    d. Lower population growth per year from 0.50% to zero
    e. Update mortality tables to incorporate generational improvements

2. Assumptions that were not changed:

    a. Investment return will remain at 7.75%
    b. Inflation will remain at 3.00%
    c. Payroll growth will remain at 3.50%
    d. Real return assumption will remain at 4.75%
    e. COLA assumption remains at 2.00% per year

See also the Actuarial Assumptions subsection of the financial statement note disclosure General Information on the Pension Plan.

SUPPLEMENTARY INFORMATION

State of New Mexico
Mesalands Community College

SCHEDULE OF BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
UNRESTRICTED AND RESTRICTED – ALL OPERATIONS

Year Ended June 30, 2016

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget (Over) Under
Beginning Balance	$ 3,499,928	$ 3,912,558	$ 3,511,160	$ (401,398)
Unrestricted and Restricted Revenues:				
Tuition and miscellaneous fees	971,468	915,291	685,730	(229,561)
Federal government appropriations	814,138	814,138	753,215	(60,923)
State government appropriations	4,704,274	4,676,874	4,539,748	(137,126)
Local government appropriations	250,000	250,000	274,993	24,993
Federal government grants and contracts	1,621,841	1,621,841	842,840	(779,001)
State government grants and contracts	175,311	177,235	307,241	130,006
Local government grants and contracts	-	-	-	-
Private gifts	100,000	100,000	63,833	(36,167)
Endowments, land, and Perm Fund	-	-	-	-
Sales and services	530,851	530,851	353,627	(177,224)
Other sources	95,638	95,638	94,289	(1,349)
Capital outlay	814,582	2,170,759	152,500	(2,018,259)
Renewal and replacement	-	-	-	-
Total unrestricted and restricted revenues	10,078,103	11,352,627	8,068,016	(3,284,611)
Unrestricted and Restricted Expenditures:				
Instruction and general	7,319,845	7,319,845	6,364,579	(955,266)
Public service	238,806	240,730	181,088	(59,642)
Internal services	99,410	274,410	171,722	(102,688)
Student aid, grants and stipends	1,167,812	1,167,812	1,007,051	(160,761)
Auxiliary enterprises	268,433	318,433	295,856	(22,577)
Intercollegiate athletics	169,216	214,716	207,056	(7,660)
Capital outlay	814,582	2,160,582	123,523	(2,037,059)
Renewal and replacement	57,497	57,497	12,584	(44,913)
Total unrestricted and restricted expenditures	10,135,601	11,754,025	8,363,459	(3,390,566)
Net Transfers	-	-	-	-
Change in net assets (budgetary basis)	(57,498)	(401,398)	(295,443)	105,955
Ending Balance	$ 3,442,430	$ 3,511,160	$ 3,215,717	$ (295,443)

State of New Mexico
Mesalands Community College

SCHEDULE OF BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
UNRESTRICTED – NON INSTRUCTION AND GENERAL

Year Ended June 30, 2016

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget (Over) Under
Beginning Balance	$ 3,499,928	$ 3,912,558	$ 3,511,160	$ (401,398)
Unrestricted Revenues:				
Tuition and miscellaneous fees	971,468	915,291	685,730	(229,561)
Federal government appropriations	-	-	-	-
State government appropriations	4,567,100	4,539,700	4,539,748	48
Local government appropriations	250,000	250,000	274,993	24,993
Federal government grants and contracts	-	-	-	-
State government grants and contracts	-	-	-	-
Local government grants and contracts	-	-	-	-
Private gifts	-	-	-	-
Endowments, land, and Perm Fund	-	-	-	-
Sales and services	530,851	530,851	353,627	(177,224)
Other sources	95,638	95,638	94,289	(1,349)
Capital outlay	814,582	2,170,759	152,500	(2,018,259)
Renewal and replacement	-	-	-	-
Total unrestricted revenues	7,229,639	8,502,239	6,100,887	(2,401,352)
Unrestricted Expenditures:				
Instruction and general	5,661,693	5,661,693	5,436,629	(225,064)
Student social and cultural	-	-	-	-
Research	-	-	-	-
Public service	99,806	99,806	40,164	(59,642)
Internal service departments	99,410	274,410	171,722	(102,688)
Student aid	116,500	116,500	100,370	(16,130)
Auxiliary enterprises	268,433	318,433	295,856	(22,577)
Intercollegiate athletics	169,216	214,716	207,056	(7,660)
Independent operations	-	-	-	-
Capital outlay	814,582	2,160,582	123,523	(2,037,059)
Renewal and replacements	57,497	57,497	12,584	(44,913)
Total unrestricted expenditures	7,287,137	8,903,637	6,387,904	(2,515,733)
Net Transfers	-	-	-	-
Change in net assets (budgetary basis)	(57,498)	(401,398)	(287,017)	114,381
Ending Balance	$ 3,442,430	$ 3,511,160	$ 3,224,143	$ (287,017)

State of New Mexico
Mesalands Community College

SCHEDULE OF BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
RESTRICTED — NON INSTRUCTION AND GENERAL

Year Ended June 30, 2016

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget (Over) Under
Beginning Balance	$ -	$ -	$ -	$ -
Restricted Revenues:				
Tuition and miscellaneous fees	-	-	-	-
Federal government appropriations	814,138	814,138	753,215	(60,923)
State government appropriations	137,174	137,174	80,175	(56,999)
Local government appropriations	-	-	-	-
Federal government grants and contracts	1,621,841	1,621,841	842,840	(779,001)
State government grants and contracts	175,311	177,235	227,067	49,832
Local government grants and contracts	-	-	-	-
Private gifts	100,000	100,000	63,833	(36,167)
Endowments, land, and Perm Fund	-	-	-	-
Sales and services	-	-	-	-
Other sources	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacement	-	-	-	-
Total restricted revenues	2,848,464	2,850,388	1,967,130	(883,258)
Restricted Expenditures:				
Instruction and general	1,658,152	1,658,152	927,950	(730,202)
Student social and cultural	-	-	-	-
Research	-	-	-	-
Public service	139,000	140,924	140,924	-
Internal service departments	-	-	-	-
Student aid	1,051,312	1,051,312	906,681	(144,631)
Auxiliary enterprises	-	-	-	-
Intercollegiate athletics	-	-	-	-
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Total restricted expenditures	2,848,464	2,850,388	1,975,555	(874,833)
Net Transfers	-	-	-	-
Change innet assets (budgetary basis)	-	-	(8,425)	(8,425)
Ending Balance	$ -	$ -	$ (8,425)	$ (8,425)

State of New Mexico
Mesalands Community College

SCHEDULE OF BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
UNRESTRICTED – INSTRUCTION AND GENERAL

Year Ended June 30, 2016

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget (Over) Under
Beginning Balance	$ 2,691,643	$ 2,568,733	$ 2,233,998	$ (334,735)
Unrestricted Revenues:				
Tuition and miscellaneous fees	971,468	915,291	685,730	(229,561)
Federal government appropriations	-	-	-	-
State government appropriations	4,294,000	4,266,600	4,266,648	48
Local government appropriations	250,000	250,000	274,993	24,993
Federal government grants and contracts	-	-	-	-
State government grants and contracts	-	-	-	-
Local government grants and contracts	-	-	-	-
Private gifts	-	-	-	-
Endowments, land, and Perm Fund	-	-	-	-
Sales and services	-	-	-	-
Other sources	81,896	81,896	94,289	12,393
Total unrestricted revenues	5,597,364	5,513,787	5,321,660	(192,127)
Unrestricted Expenditures:				
Instruction	2,256,048	2,226,048	2,096,632	(129,416)
Academic support	781,917	756,917	752,572	(4,345)
Student services	754,842	729,842	683,048	(46,794)
Institutional support	1,233,192	1,258,192	1,242,855	(15,337)
Operation and maintenance of plant	635,694	690,694	661,522	(29,172)
Total unrestricted expenditures	5,661,693	5,661,693	5,436,629	(225,064)
Net Transfers	(186,829)	(186,829)	(186,829)	-
Change in fund balance (budgetary basis)	(251,158)	(334,735)	(301,798)	32,937
Ending Fund Balance	$ 2,440,485	$ 2,233,998	$ 1,932,200	$ (301,798)

State of New Mexico
Mesalands Community College

RECONCILIATION OF BUDGETARY BASIS REVENUES AND EXPENDITURES TO GAAP BASIS REVENUES AND EXPENDITURES

For the Year Ending June 30, 2016

Unrestricted and Restricted Revenues:	
Total Budgetary Basis	$ 8,068,016
Additions to endowments	54,243
Other	(1,884)
Total GAAP Basis	$ 8,120,375
Unrestricted and Restricted Expenditures:	
Total Budgetary Basis	$ 8,363,459
Capital expenditures	(191,148)
Depreciation expense	748,985
Bad debt expense	8,112
Pension expense	178,835
Other	(54,687)
Total GAAP Basis	$ 9,053,556

State of New Mexico
Mesalands Community College

SCHEDULE OF PLEDGED COLLATERAL

June 30, 2016

	Total Deposits	FDIC or NCUSIF Insurance	Collateral Required	Collateral Pledged	Security Deficit
1st National Bank of New Mexico	$ 2,478,894	$ (250,000)	$ 1,114,447	$ (2,714,421)	$ -
Wells Fargo	$ 881,472	$ (250,000)	$ 315,736	$ (409,917)	$ -
Everyone's Federal Credit Union	$ 35,225	$ (35,225)	$ -	$ -	$ -

All pledged securities are held by the financial institutions agent at:

1st National Bank of New Mexico:

Collateral	CUSIP#	Maturity		Held at
Roosevelt Cnty NM G.R.	776461AL9	6/1/2017	$ 170,388	Federal Home Loan Bank
FHLMC Pool #J20127	31306XD83	8/1/2027	307,238	of Dallas
Mosquero NM Mun Sch Dist	619636DR1	8/15/2018	257,300	8500 Freeport Parkway South
Portales NM Mun Sch Dist	736151DH1	1/15/2017	100,124	Suite 100
Portales NM Mun Sch Dist	736151DJ7	1/15/2018	250,440	Irving, Texas 75063-2547
FNMA Pool #MA1472	31418AT65	6/1/2033	192,743	
Bernalillo NM Mun Sch Dist No 1	085279PK7	8/1/2019	157,668	
Dulce NM Indpt Sch Dist No 21	264430HK8	3/1/2019	107,727	
GNMA Series 2016-24 Class AE	38379UFP6	12/16/2056	352,568	
FNMA Pool #MA1983	31418BFZ4	8/1/2034	818,225	
			$ 2,714,421	

Wells Fargo

Collateral	CUSIP#	Maturity		Held at
FNMA FNMS	3138AXCU3	11/1/2026	$ 409,917	BNY Mellon One Wall Street, Fourth Floor New York, NY 10286

State Of New Mexico
Mesalands Community College

Schedule 7

SCHEDULE OF MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY
GENERAL OBLIGATION REVENUE BOND AND SEVERANCE TAX BONDS
CAPITAL OUTLAY APPROPRIATIONS FROM THE STATE
Year Ended June 30, 2016

Project Description		Authority/Chapter	Laws	Appropriation Period	Expiration	Total Appropriation	Bonds Sold to Date	Bonds Unsold	Amount Available	Prior Year Expenditures	Current Year Expenditures	Art in Public Places	Current Year Reversion Amount	Unencumbered Balance
General Obligation Revenue Bond														
General Obligation 12-1242	Infrastructure & Roof Renovate	Ch 54 Sec 10/C/2	2012	2013	6/30/2016	$ 1,000,000	$ 1,000,000	$ -	$ 1,000,000	$ 998,829	$ 1,171	$ -	$ -	$ -
General Obligation 14-1291	Library	Ch 54 Sec 10/B/2	2014	2015	6/30/2018	6,654	6,654	-	6,654	-	6,654	-	-	-
General Obligation 14-1300	Roof & Critical Infrastructure Imp.	Ch 65 Sec 10/C/2/e	2014	2015	6/30/2018	650,000	650,000	-	650,000	-	142,997	-	-	507,003
	Total General Obligation Revenue Bonds					$ 1,656,654	$ 1,656,654	$ -	$ 1,656,654	$ 998,829	$ 150,822	$ -	$ -	$ 507,003
Severance Tax Bond Proceeds														
Severance Tax 14-2112	Roofing & HVAC	Ch 66 Sec 26/2	2014	2015	6/30/2018	$ 140,000	$ 140,000	$ -	$ 140,000	$ -	$ -	$ -	$ -	$ 140,000
Severance Tax 15-0963	Building D Roof & Infrastructure Imp.	Ch 3 Sec 34/6	2015	2016	6/30/2019	1,300,000	1,300,000	-	1,300,000	-	-	-	-	1,300,000
	Total Severance Tax Bonds					$ 1,440,000	$ 1,440,000	$ -	$ 1,440,000	$ -	$ -	$ -	$ -	$ 1,440,000
	Total Capital Appropriations					$ 3,096,654	$ 3,096,654	$ -	$ 3,096,654	$ 998,829	$ 150,822	$ -	$ -	$ 1,947,003

State Of New Mexico
Mesalands Community College

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

For the Year Ended June 30, 2016

RFB#/RFP #	Type of Procurement	Vendor Name	Did Vendor Win Contract?	$ Amount of Awarded Contract	$ Amount of Amended Contract	Physical Address of Vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work
2016-001	RFP	Parkhill, Smith & Cooper	Yes	$ 206,166.00	4,610.84	Amarillo, TX	Yes	No	Architectural & Engineering Services
		Dyron Murphy Architects, PC	No			Albuquerque, NM	Yes	No	
		Huitt-Zollars, Inc.	No			Rio Rancho, NM	Yes	No	
		Lee Gamelsky Architects PC	No			Albuquerque, NM	Yes	No	
		McClain + Yu Architecture	No			Albuquerque, NM	Yes	No	
		NCA Architects & Planners	No			Albuquerque, NM	Yes	No	
		Van H. Gilbert Architect PC	No			Albuquerque, NM	Yes	Yes	
2016-002	RFP	Atkinson & Co., LTD	Yes	$ 122,194.00		Albuquerque, NM	Yes	No	Audit Services
		AXIOM Certified Public Accountants & Business Advisors LLC	No			Albuquerque, NM	Yes	No	
		Harshwal & Company LLP	No			Albuquerque, NM	Yes	No	
		Hinkle + Landers	No			Albuquerque, NM	Yes	No	
		Jaramillo Accounting Group LLC	No			Albuquerque, NM	Yes	No	
		Rice and Associates, CPA	No			Albuquerque, NM	Yes	No	
		RPC CPAs + Consultants LLC	No			Clovis, NM	Yes	No	
		Southwest Accounting Solutions, LLC	No			Albuquerque, NM	Yes	No	

State of New Mexico
Mesalands Community College

COMBINING SCHEDULE OF CHANGES IN ACCOUNT BALANCES – AGENCY FUND

For the Year Ended June 30, 2016

	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016
Auto tech club	$ 1,531	$ -	$ 2	$ 1,529
Astronomy club	198	-	2	196
Gamers club	682	-	-	682
Chi Alpha	448	-	2	446
Diesel club	875	-	2	872
Skills USA club	349	-	2	347
Hot metal club	2,440	787	2	3,224
Life savers club	453	-	2	450
Livestock judging	416	-	2	414
Natural sciences club	219	-	2	217
Native American club	477	584	152	909
Peer mentoring	391	-	2	389
Phi Theta Kappa	1,546	519	302	1,763
Robotics club	-	1,230	202	1,027
Rodeo club	12,456	3,971	11,272	5,155
Farrier SHOE club	10,722	2,892	3,459	10,155
SIFE	1,272	-	2	1,270
Hispanic heritage club	812	2,853	2,469	1,195
Student government	538	442	467	512
Truck driving club	397	-	2	395
M.E.S.A. club	295	-	2	293
NAWRTC club	71	-	2	69
Employee office fund	2,554	2,588	1,528	3,614
GED club	106	-	2	104
Total	$ 39,246	$ 15,865	$ 19,884	$ 35,227

State of New Mexico
Mesalands Community College

MEMORANDUMS OF UNDERSTANDING

June 30, 2016

Participants	Responsible operating party	Beginning Date	Ending Date	Total Estimated Amount of Project	Portion Applicable to MCC	Amount Contributed	Audit Responsibility	Fiscal Agent	Purpose
The Geo Group Corrections	MCC	3/14/2011	ongoing	$ 73,080	$ 73,080	$ 119,916	MCC	Gloria Chavez	To provide post secondary education to students in the correctional facility.
The Geo Group Corrections	MCC	08/01/08	ongoing	$ 131,340	$ 131,340	$ 242,868	MCC	Amberly Ward	To provide post secondary education to students in the correctional facility.
New Mexico Corrections Department	MCC	07/01/15	06/30/16	$ 30,000	$ 27,767	$ 38,694	MCC	Leslie Bradley	To provide post secondary education to students in the correctional facilities.
Otero County Prison Facility	MCC	10/31/13	ongoing	$ 21,701	$ 21,701	$ 31,900	MCC	Deloris Simmons	To provide post secondary education to students in the correctional facility.

State of New Mexico
Mesalands Community College

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
U.S Department of Education				
Direct Programs:				
Student Financial Assistance Cluster				
Pell Grant		84.063	$ -	$ 697,597
College Work Study		84.033	-	22,880
Supplemental Educational Opportunity Grant (SEOG)		84.007	-	20,047
Total Student Financial Assistance Cluster				740,524
Higher Education_Institutional Aid		84.031C	-	550,493
Total U.S Department of Education Direct				1,291,017
Indirect Programs				
Passed through NM Higher Edcuation Department				
Adult Education - Basic Grants to States	V002A140032	84.002	-	50,984
Total U.S Department of Education Indirect				50,984
Total U.S Department of Education				1,342,001
Small Business Administration				
Small Business Development Centers	7620003212	59.037	-	140,924
Total Small Business Administration				140,924
U.S. Department of Labor				
Passed through NM Skill-Up Network Consortium				
Trade Adjustment Assistance Community College and Career Training Grants	TC264861460A35	17.282	-	133,975
Integrated Basic Education Skills Training	TC225501160A35	17.282	-	3,707
Total U.S. Department of Labor				137,682
Total Schedule of Expenditures of Federal Awards				$ 1,620,607

Federal grants and contracts revenues	$ 1,596,857
Federal other revenues	23,750
Total federal revenues	$ 1,620,607

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

NOTE A – GENERAL

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the College under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the College.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Amounts related to pass through grants are classified as state grants and contracts in the accompanying statement of revenues, expenses, and changes in net position.

NOTE C – INDIRECT COST RATE

The College has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Board of Trustees
Mesalands Community College
Tucumcari, New Mexico
and
Mr. Timothy Keller
New Mexico State Auditor

We have audited, 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, the financial statements of the business-type activities and related notes which collectively comprise the basic financial statements of Mesalands Community College (the College), as of and for the year ended June 30, 2016. We have also audited the budgetary comparison schedules presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2016 and the related notes and have issued our report thereon dated November 15, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

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 as items 2016-002, 2016-003, 2016-004 and 2016-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2016-006, 2016-007, 2016-008 and 2016-009.

Mesalands Community College's Responses to Findings

The Mesalands Community College's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The College'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 15, 2016

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Mesalands Community College
Tucumcari, New Mexico
and
Mr. Timothy Keller
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited Mesalands Community College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2016. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College'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 College's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the College, 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, 2016.

Report on Internal Control Over Compliance

Management of the College 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 College's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

The purpose of this report on internal control 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.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 15, 2016

SUMMARY OF AUDIT FINDINGS

Year Ended June 30, 2016

Prior Year Findings	**Status**
Findings – Financial Statement	
2012-001 Expenditures (Significant Deficiency)	Resolved
2015-001 Overspent Budget (Other)	Resolved
Findings in Accordance with 2.2.2 NMAC (State Audit Rule)	
None	
Findings – Federal Award Findings and Questioned Costs	

Current Year Findings

Findings – Financial Statement

2016-001 Endowment Funds Not Properly Recorded Or Valued (Material Weakness)
2016-002 No Formal Investment Policy (Significant Deficiency)
2016-003 No Disaster Recovery Plan (Significant Deficiency)
2016-004 Bank Reconciliations (Significant Deficiency)
2016-005 Services Provided by Mesalands Community College Foundation (Significant Deficiency)
2016-006 Prior Authorization on Travel Request Forms (Deficiency In Internal Control)
2016-007 Collection of Gas Card Receipts (Deficiency In Internal Control)

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2016-008 Sole Source Procurement Documentation (Other Noncompliance)
2016-009 Full Inventory of Capital Assets Is Not Completed Annually (Other Noncompliance)

Findings – Federal Award Findings and Questioned Costs

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_X_ Yes ____ No
• Significant deficiencies identified?	_X_ Yes ____ None reported
Non-compliance material to financial statements noted?	_X_ Yes ____ No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____ Yes _X_ No
• Significant deficiencies identified?	____ Yes _X_ None reported
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 200.5163(a)?	____ Yes _X_ No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
84.031C	Higher Education-Institutional Aid

Dollar threshold used to distinguish between type A and type B programs	$750,000
Auditee qualified as low-risk auditee?	_X_ Yes ____ No

B. FINANCIAL STATEMENT FINDINGS

2016-001 ENDOWMENT FUNDS NOT PROPERLY RECORDED OR VALUED (MATERIAL WEAKNESS)

CONDITION
The endowment funds held by the Mesalands Community College Foundation were not fully recorded as Mesalands assets and there had been no adjustments for gain and loss activity for assets that were recorded.

CRITERIA
Endowment funds consist of federal grant and state general funding awarded to the College and matching funds from private individuals. These funds belong to the College even though they are invested by the Foundation and should have been recorded as assets of the College in its financial statements from inception (approx. 2002).

CAUSE
Management and the Board were unaware that the assets belonged to the College after transfer to the Foundation.

EFFECT
The College's assets were understated by approximately $535,000. A prior period adjustment was recorded to correct this error.

RECOMMENDATION
We recommend that the College as part of an investment policy identify the types of funding sources that might create an endowment that belongs to the College and document procedures for recording and tracking such assets. See also finding 2016-002.

MANAGEMENT RESPONSE
The College concurs with the finding.

CORRECTIVE ACTION
The College will establish procedures for recording and tracking these assets. The College should have the process in full practice by June 30, 2017.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

2016-002 NO FORMAL INVESTMENT POLICY (SIGNIFICANT DEFICIENCY)

CONDITION
The College does not have an Investment Policy.

CRITERIA
Chapter 46-9A NMSA 1978 requires the use of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) when managing fiduciary or trust funds. An investment policy is used to direct management and others in the types of investments authorized and in the authorized use of such assets.

CAUSE
Board of Trustees and Management have not given proper emphasis to the timeliness of creating and approving the policy.

EFFECT
Short-term investments were not properly classified as such and investments held at the Mesalands Community College Foundation (MCC Foundation), though invested in low-risk areas, are not generating income sufficient to create income to spend for endowed purposes.

RECOMMENDATION
The College should develop and approve a policy that outlines spending limits, risk tolerance and investment types as well as any other provisions of state law that apply.

MANAGEMENT RESPONSE
The College not only agrees with this finding, but has already started the process to have a policy adopted by the Board of Trustees.

CORRECTIVE ACTION
The initial policy will be presented to the Mesalands Community College Board of Trustees at their regularly scheduled meeting on November 15, 2016 with a final policy in place by March 31, 2017.

POINT OF CONTACT
Dr. Thomas Newsom, President

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

2016-003 NO DISASTER RECOVERY PLAN (SIGNIFICANT DEFICIENCY)

CONDITION
The College has no formal disaster recovery plan in place. Without a disaster recovery plan to provide guidance, the College may be unable to effectively manage the recovery effort. A written disaster recovery plan should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations. Additionally, we noted the following:

- There is no offsite backup for critical systems and data. If a natural disaster were to occur and destroy the College campus, recovery of the backup data may not be possible and data may be permanently lost.
- The fire suppression system in the server room is inadequate. The system being used is the building fire suppression system and because it sprays water, if it is activated, the server equipment will be destroyed and the data will likely be lost.
- The College's IT department does not enforce the requirement to periodically change user passwords or have complexity requirements although the IT policy requires it.

CRITERIA
Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-00.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing federal and state statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.

CAUSE
The College is currently working on its disaster recovery and business continuity plan, but it was not completed or implemented during FY16.

EFFECT
The lack of updated disaster recovery plan, no offsite backup and inadequate fire suppression systems in the server room may affect the College’s ability to respond and recover its critical data and applications in the event of an unforeseen disaster or cyberattack. No requirement to periodically change user passwords may increase the chances of unauthorized access to College systems and data.

RECOMMENDATION
We recommend that the College develop a formal disaster recovery plan and arrange for offsite backup storage capabilities as well as improve the fire suppression system currently in the server room to be hardware safe. It would be prudent for the College to test the plan to ensure the viability of the plan and the timeliness of its execution. System recovery should be documented and formalized to be included with the College’s overall business continuity planning.

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

2016-003 NO DISASTER RECOVERY PLAN (SIGNIFICANT DEFICIENCY) – CONTINUED

MANAGEMENT RESPONSE
The College concurs with the finding.

CORRECTIVE ACTION
The College is currently working on a formal disaster recovery plan with arrangement for offsite backup storage capability. A plan should be in place by June 30, 2017. The College has obtained over $100,000 from state severance bonds in order to initiate this plan with improvements to the College's Technology Infrastructure.

POINT OF CONTACT
Jim Jones, Director of Information Technology

2016-004 BANK RECONCILIATIONS (SIGNIFICANT DEFICIENCY)

CONDITION
Bank reconciliations are not reviewed after preparation resulting in a lack of segregation of duties.

CRITERIA
Timely review of bank reconciliations is key to maintaining adequate control over both cash receipts and disbursements.

CAUSE
Business Office management performs the bank reconciliation process and at this time, there is no review performed to ensure accuracy and approval.

EFFECT
Bank errors, improper transactions and/or fraud may not be detected.

RECOMMENDATION
We recommend that reconciliations be performed by an employee not responsible for disbursing cash or maintaining cash records who has been trained on the reconciliation process. The reconciliations should be reviewed by a member of the Business Office management and be signed or initialed as an indication of review and approval.

MANAGEMENT RESPONSE
The College concurs with the finding.

CORRECTIVE ACTION
The College will implement a process within 45 days of the audit report to have all bank reconciliations reviewed by the appropriate personnel.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

2016-005 SERVICES PROVIDED BY MESALANDS COMMUNITY COLLEGE FOUNDATION (SIGNIFICANT DEFICIENCY)

CONDITION
Significant endowment assets of the College are held and invested by Mesalands Community College Foundation and an audit has not been completed since 2013. There is no formal agreement outlining the responsibilities by each entity regarding the endowment funds.

CRITERIA
A formal agreement with responsibilities should be communicated between entities regarding how the endowment funds are maintained and invested.

CAUSE
The Business Office staff at Mesalands also performs accounting functions at the Foundation and priority is given to the College. The College has had late audits and turnover and therefore has caused further delay in Foundation audits being completed. Prior to this year, the endowment funds were not fully recorded and misclassified on the balance sheet as cash. This may have caused the College and Foundation to not consider an official agreement necessary.

EFFECT
There is a risk of misstatement of the endowment funds or noncompliance with state law regarding investment of public funds.

RECOMMENDATION
We recommend that an agreement between entities be developed that clearly explains the responsibilities of each entity regarding the investment and maintenance of the College's endowment funds. We also recommend that prior year audits be completed and per our understanding with management, the audits are planned to be completed in early 2017.

MANAGEMENT RESPONSE
The College concurs with the finding.

CORRECTIVE ACTION
The College will develop a formal agreement between the College and Mesalands Community College Foundation, Inc. by March 31, 2017.

POINT OF CONTACT
Dr. Thomas Newsom, President

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

2016-006 PRIOR AUTHORIZATION ON TRAVEL REQUEST FORMS (DEFICIENCY IN INTERNAL CONTROL)

CONDITION
Three of six travel request forms tested were not approved prior to the travel expenses being incurred. The exceptions totaled $1,692 out of a sample total of $3,501.

CRITERIA
The administrative handbook of the College, specifies that a travel request form must be completed, signed and approved including all required documentation before any travel occurs, regardless if claiming travel expenses.

CAUSE
Based on a prior year audit finding related to goods and services, a focus has not been placed on the process for travel request forms being properly approved prior to the travel being taken.

EFFECT
The College was obligated for expenditures without proper approval.

RECOMMENDATION
Procurement procedures should be followed in all situations.

MANAGEMENT RESPONSE
The College acknowledges this finding.

CORRECTIVE ACTION
The College will train employees on submitting travel requests in a timely manner regardless of expenditures. The College expects to have this training completed within 90 days of the date of the audit report.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

2016-007 COLLECTION OF GAS CARD RECEIPTS (DEFICIENCY IN INTERNAL CONTROL)

CONDITION
During our testing for compliance over gas card usage as well as while gaining an understanding over controls in this area, we noted that while there is a policy that employees that use the College's gas card are required to turn in a receipt, not all employees turn in the receipts and there is no consequence if a receipt is not collected by the Business Office. This may open up the opportunity for employees in possession of the College's gas card to misuse the card.

CRITERIA
Per the College's Administrative Handbook, upon returning the vehicle, the employee must return the folder containing the keys, gas card(s), gas card receipts, and completed Vehicle Report to the Business Office. It is also noted that employees not following the procedures set forth will lose privileges to operate any College vehicle.

CAUSE
Employees who use College vehicles claim that receipts are lost or forgotten at the time the vehicle is returned. In some cases, receipts are turned in to the Business Office that are from months past and are not attached to the appropriate statement for reconciliation.

EFFECT
Employees may take the opportunity to misuse the gas card and will have no consequences or personal liability for unauthorized or unsubstantiated gas card purchases.

RECOMMENDATION
The College should improve the practices for collecting gas card receipts to detect when employees are not following policy.

MANAGEMENT RESPONSE
The College acknowledges this finding.

CORRECTIVE ACTION
The College will train employees on submitting gas card receipts. The College expects to have this training completed within 90 days of the date of the audit report.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

C. Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2016-008 SOLE SOURCE PROCUREMENT DOCUMENTATION (OTHER NONCOMPLIANCE)

CONDITION
Inadequate documentation to support sole source procurements.

CRITERIA
State Procurement Code 13-1-1- to 13-1-199 and the State Purchasing Division Procurement Code Regulations (1.4.1 NMAC) states that if a purchase is considered to be sole source, proper documentation and approval must be obtained.

CAUSE
Accounting staff was not aware that sole source justification was required for goods and services obtained when there were no other viable and cost effective options. In addition, accounting staff was not aware that this applied to small purchases that totaled less than $60,000 over the course of the fiscal year.

EFFECT
It is not clear that the vendors the College is using for specialized goods and services meets the criteria to be sole source.

RECOMMENDATION
If the College is aware that goods and services can only be obtained from one vendor, that this fact be documented and approved prior to proceeding with the procurement.

MANAGEMENT RESPONSE
The College concurs with the finding.

CORRECTIVE ACTION
The College will implement a process of documenting the appropriate vendor files as necessary for sole source procurements. The College will have the process completed in 60 days from the date of the audit report. The College will also attempt to trace all sole source procurements from the past two years and provide documentation to those files if possible.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

C. Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2016-009 FULL INVENTORY OF CAPITAL ASSETS IS NOT COMPLETED ANNUALLY (OTHER NONCOMPLIANCE)

CONDITION
The College does not perform a full inventory of all capital assets. It is a requirement that the College ensure that the assets held by the College are present and in good, working condition or evaluate if the asset is impaired and should be sold or otherwise disposed of in order to maintain accurate asset listings and values on the statement of net position.

CRITERIA
Section 13-6-10 NMSA 1978 requires state agencies, including Higher Education Institutions, to perform a physical observation of all capital assets on an annual basis.

CAUSE
The process was put aside due to other issues that management considered to be more urgent due to turnover and a difficult enterprise software implementation.

EFFECT
By not performing a full inventory count, the College does not know if all of the assets carried on the balance sheet are in good working condition or whether or not items have been stolen, broken or are otherwise impaired and is not in compliance with state law.

RECOMMENDATION
The College should perform and document an annual inventory of all capital assets.

MANAGEMENT RESPONSE
The College concurs with the finding.

CORRECTIVE ACTION
The College will have this process in place by June 30, 2017.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

EXIT CONFERENCE

June 30, 2016

An exit conference was held on November 11, 2016, with the following in attendance:

For Mesalands Community College:

James P. Streetman	Board Secretary
Dr. Thomas W. Newsom	President
Amanda Hammer	VP of Administrative Affairs

For Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM	Audit Director
Sarah Brack, CPA, CGFM, CGMA	Audit Manager

The financial statements were prepared by Atkinson & Co., Ltd, with the assistance of the College. The College is responsible for the contents of these financial statements.

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