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MESALANDS COMMUNITY COLLEGE

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

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C O N T E N T S

State of New Mexico
Mesalands Community College

June 30, 2017

OFFICIAL ROSTER

Executive Personnel

Dr. Thomas W. Newsom	President
Dr. Aaron Kennedy	Vice President of Student Affairs
Natalie Gillard	Vice President of Academic Affairs
Amanda Hammer	Vice President of Administrative Affairs

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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, 2017, and the related notes to the financial statements which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Mesalands Community College as of June 30, 2017, 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.

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, 2017, 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 and pension schedules and related notes on pages 42-44 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying budget comparison schedules of combined revenues and expenditures, unrestricted current funds, restricted current funds, unrestricted instruction and general, and reconciliation from budget to GAAP basis, 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, budget schedules, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, 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
October 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended June 30, 2017

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, 2017. 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 2017.

Using Basic Financial Statements

The Statement of Net Position presents the assets, liabilities, net position and deferred outflows and deferred inflows of the College as of the end of the fiscal year 2017. 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 position.

Changes 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 increased by $898,080 in 2017 over 2016. The increase is primarily due to investments in capital assets and increases in endowments.

2017 total assets were increased by $1,474,072 over 2016. The increase is related to an increase in capital assets from current year additions to construction in progress.

Total revenues in fiscal year 2017 were $9,459,636 as compared to $8,120,373 in fiscal year 2016. State appropriations account for the largest source of revenue at $4,196,000. During 2017, grants and contracts generated revenues of $1,378,836. In 2017, student tuition and fee revenue increased by $36,465, as compared to 2016.

Deferred Outflows in 2017 increased by $589,004, while Deferred Inflows decreased by $98,600. Both of these changes were influenced by pension related activity.

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, 2017	Balance June 30, 2016	Difference	% Change
Current assets	$ 4,776,504	$ 4,585,700	$ 190,804	4.2%
Capital assets, net	19,845,813	18,853,300	992,513	5.3%
Assets held by others	1,019,606	728,851	290,755	39.9%
Total Assets	25,641,923	24,167,851	1,474,072	6.1%
Deferred Outflows - pension related	1,536,796	947,792	589,004	62.1%
Total Assets and Deferred Outflows	$ 27,178,719	$ 25,115,643	$ 2,063,076	8.2%
Current Liabilities	$ 608,014	$ 577,741	$ 30,273	5.2%
Non-Current Liabilities	7,882,108	6,648,785	1,233,323	18.5%
Total Liabilities	8,490,122	7,226,526	1,263,596	17.5%
Deferred Inflows - pension related	40,074	138,674	(98,600)	-71.1%
Net Position				
Net investment in capital assets	20,618,015	18,853,300	1,764,715	9.4%
Restricted net position	1,019,606	728,851	290,755	39.9%
Unrestricted net position	(2,989,098)	(1,831,708)	(1,157,390)	63.2%
Total Net Position	18,648,523	17,750,443	898,080	5.1%
Total Liabilities, Deferred Inflows and Net Position	$ 27,178,719	$ 25,115,643	$ 2,063,076	8.2%

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, 2017 equal $3,314,553, 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 2017 were $608,014.

Non-current assets are capital assets, net of accumulation of depreciation, for 2017 were $19,845,813. The capital assets increased due to construction in progress for the year.

For fiscal year 2017 the College has debt in the amount of $114,340 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, 2017	June 30, 2016	Difference	%
Operating Revenue	$ 2,913,388	$ 3,069,324	$ (155,936)	-5.1%
Operating Expense	8,561,556	9,053,556	(492,000)	-5.4%
Operating Loss	(5,648,168)	(5,984,232)	336,064	-5.6%
Non-Operating Revenue	4,502,451	4,827,170	(324,719)	-6.7%
Loss before other revenues and capital items	(1,145,717)	(1,157,062)	11,345	-1.0%
Other revenues and capital items	2,043,797	223,879	1,819,918	812.9%
Increase (Decrease) in net position	$ 898,080	$ (933,183)	$ 1,831,263	-196.2%

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 more than $1,250,000 from the previous year. 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 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 three fiscal years, with 10 of the last 11 semesters showing enrollment growth. We anticipate that growth in expenses may outpace 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 did complete Phase 1 of the disaster recovery project. During this next fiscal year, we complete Phase 2 with the implementation of the plan with an offsite backup storage system.
- The College will complete internal audits to verify internal controls, calculations, formulas, and data elements.
- The College will update policies and procedures to meet all Federal statutes, regulations, and the terms and conditions of the Federal awards.

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 Administrative 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, 2017

ASSETS	
Current assets	
Cash and cash equivalents	$ 3,314,553
Student accounts receivable, net of allowance for doubtful accounts of $77,915	106,555
Due from grantors	291,760
Due from other agencies	139,960
Short-term investments	704,349
Inventories	200,833
Prepaid expenses	18,494
Total current assets	4,776,504
Noncurrent assets	
Assets held by others	1,019,606
Capital assets, net	19,845,813
Total noncurrent assets	20,865,419
Total assets	25,641,923
DEFERRED OUTFLOWS OF RESOURCES	1,536,796

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

STATEMENT OF NET POSITION - CONTINUED

Year Ended June 30, 2017

LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	$ 310,984
Student deposits	7,130
Unearned revenue	35,856
Compensated absences, current portion	241,262
Note payable, current portion	12,782
Total current liabilities	608,014
Noncurrent liabilities	
Compensated absences, less current portion	33,589
Note payable, less current portion	101,558
Net pension liability	7,746,961
Total non-current liabilities	7,882,108
Total liabilities	8,490,122
DEFERRED INFLOWS OF RESOURCES	40,074
NET POSITION	
Net investment in capital assets	19,731,473
Restricted for nonexpendable endowments	1,019,606
Unrestricted	
Nonexpendable prepaid expenses and inventories	219,327
Expendable (deficit)	(2,321,883)
Total net position	$ 18,648,523

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2017

OPERATING REVENUES		
Federal grants and contracts	$	1,378,836
Student tuition and fees		769,325
State and local grants and contracts		421,265
Sales and services of auxiliary enterprises		266,374
Other operating revenues		77,588
Total operating revenues		2,913,388
OPERATING EXPENSES		
Instruction and general		
Instruction		2,491,165
Institutional support		999,526
Student services		613,083
Operations and maintenance of plant		537,474
Academic support		532,370
Student aid, grants and stipends		1,021,063
Pension expense		977,997
Depreciation		772,203
Auxiliary enterprises		219,636
Intercollegiate athletics		159,057
Public Service		148,436
Bad debt expense		46,197
Renewals and replacements		23,162
Internal services		20,187
Total operating expenses		8,561,556
Operating loss		(5,648,168)

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

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

Year Ended June 30, 2017

NONOPERATING REVENUES	
State appropriations	$ 4,196,000
Local taxes	294,452
Interest and other investment income	11,999
Total nonoperating revenues	4,502,451
Loss before other revenues and capital items	(1,145,717)
OTHER REVENUES AND CAPITAL ITEMS	
Capital appropriations from state issued bonds	1,694,143
Additions to permanent endowments	290,755
Contributions	58,899
Total other revenues and capital items	2,043,797
Change in net position	898,080
Net position, beginning of year	17,750,443
Net position, end of year	$ 18,648,523

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, 2017

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from grants and contracts	$ 1,603,299
Receipts from student tuition and fees	745,794
Receipts from sales and services of auxiliary enterprises	421,265
Other receipts	77,588
Payments to or on behalf of employees	(3,666,739)
Payment to suppliers for goods and services	(3,482,523)
Net cash used by operating activities	(4,301,316)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	4,196,000
Property tax revenues	297,059
Contributions	58,899
Additions to endowments	290,755
Net cash provided by noncapital financing activities	4,842,713
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(1,764,716)
Capital appropriations from state issued bonds	1,664,123
Repayments of notes payable	(12,782)
Net cash used by capital and related financing activities	(113,375)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments held by others	(290,755)
Investment earnings	6,492
Net cash used by investing activities	(284,263)
Increase in cash and cash equivalents	143,759
Cash and cash equivalents, beginning of year	3,170,794
Cash and cash equivalents, end of year	$ 3,314,553

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, 2017

Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of net operating loss to net cash used by operating activities	
Operating loss	$ (5,648,168)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	772,203
Net pension expense	977,997
Deferred employer pension contributions	(406,918)
Bad debt expense	46,197
Changes in assets and liabilities	
Student accounts receivable	(29,833)
Due from grantors	(41,911)
Inventories	13,352
Prepaid expenses	(1,930)
Accounts payable and accrued expenses	12,742
Student deposits	(285)
Unearned revenue	6,587
Compensated absences	(1,349)
Net cash used by operating activities	$ (4,301,316)

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS

June 30, 2017

ASSETS		
Cash on deposit	$	36,475
Total Assets	$	36,475
LIABILITIES		
Due to student groups	$	36,475
Total Liabilities	$	36,475

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 (NCA), 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).

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 units is the scope of 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 that are prepared by the administration and approved by the Board, the New Mexico Higher Education Department, 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. 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.

Excess of expenditures over appropriations
For the year ended June 30, 2017, the College overspent its final budget amount for items within unrestricted current funds which exceeded the level of budgetary control by a total of $16,881. The excess expenditures were covered by available cash balances.

6. Cash and Cash Equivalents

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Investments

Investments are made in accordance with the Constitution of the State of New Mexico and the policies of the Board of Trustees. Investments consist of nonnegotiable certificates of deposit and mature within one year and are therefore 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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Capital Assets – Continued

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 2017, there was no unrelated business income received by the College.

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 2017 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2017.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2017.

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Revenues and Revenue Recognition – Continued

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 2016 financial statements have been reclassified to conform with the 2017 presentation.

21. Subsequent Events

Subsequent events have been evaluated through October 31, 2017, 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.

NOTE B – CASH AND INVESTMENTS – CONTINUED

1. Cash - Continued

A detail of the cash accounts at June 30, 2017, is included below:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Reconciled Balance
First National Bank of New Mexico	General	Deposit	$ 2,282,226	$ (33,966)	$ 2,248,260
First National Bank of New Mexico	Payroll	Deposit	3,391	(372)	3,019
Wells Fargo	General	Deposit	1,061,066	938	1,062,004
Everyone's Federal Credit Union	Agency	Share Draft	36,475	-	36,475
			3,383,158	(33,400)	3,349,758
	Petty Cash	N/A	-	-	1,270
	Less: Agency fund cash	N/A	(36,475)	-	(36,475)
			$ 3,346,683	$ (33,400)	$ 3,314,553

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, 2017, the College's custodial credit risk was as follows:

Total deposits all banks	$ 3,383,158
Less: FDIC or NCUA coverage	536,475
Uninsured public funds	2,846,683
50% collateral required	1,423,342
Pledged collateral held by pledging banks' agents in the name of the College	(3,057,719)
Uninsured and un-collateralized	$ -

2. Investments

Investments of the College consist of the following at June 30, 2017:

Name of Institution	Investment type	Balance per Custodian Statement	Reconciled Balance per Books
Tucumcari Federal Savings and Loan	Certificates of Deposit	$ 238,082	$ 238,042
Quay Schools Federal Credit Union	Certificates of Deposit	250,290	249,892
Everyone's Federal Credit Union	Certificates of Deposit	216,415	216,415
		$ 704,787	$ 704,349

NOTE B – CASH AND INVESTMENTS – CONTINUED

2. Investments - Continued

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, 2017, consists of the following:

	Gross	Allowance for Doubtful Accounts	Net
Student tuition and fees	$ 184,470	$ 77,915	$ 106,555
Grants receivable	291,760	-	291,760
State GO/STB bond receivable	139,960	-	139,960
Taxes receivable	-	-	-
Total accounts receivable	$ 616,190	$ 77,915	$ 538,275

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, 2017, was as follows:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
Land	$ 822,495	$ -	$ -	$ 822,495
Museum collection	1,149,816	-	-	1,149,816
Construction in progress	144,169	1,542,217	-	1,686,386
Total assets not being depreciated	2,116,480	1,542,217	-	3,658,697
Leasehold improvements	22,373	-	-	22,373
Library books	252,524	4,082	-	256,606
Buildings and improvements	18,209,988	-	-	18,209,988
Equipment	5,926,243	218,415	-	6,144,658
Total depreciable assets	24,411,128	222,497	-	24,633,625
Total capital assets	26,527,608	1,764,714	-	28,292,322
Accumulated Depreciation				
Leasehold improvements	22,373	-	-	22,373
Library books	185,484	6,144	-	191,628
Buildings and improvements	3,971,894	468,752	-	4,440,646
Equipment	3,494,557	297,307	-	3,791,864
Total accumulated depreciation	7,674,308	772,203	-	8,446,511
Capital assets, net	$ 18,853,300	$ 992,511	$ -	$ 19,845,811

NOTE E – COMPENSATED ABSENCES PAYABLE

Compensated absences activity for the year ended June 30, 2017, is as follows:

	June 30, 2016	Additions	Reductions	June 30, 2017	Amounts Due in One Year
Total compensated absences	$ 276,200	$ 33,589	$ (34,938)	$ 274,851	$ 241,262

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 lease expense for the year ended June 30, 2017 was $114,140.

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, 2016, and ended June 30, 2017. Monthly payments under these leases amount to $7,542 and are subject to annual renewal.

Future minimum lease payments are as follows for the years ending June 30:

2018	$ 81,307
2019	26,704
2020	18,384
2021	3,064
2022	-
Total	$ 129,459

The College entered into a two-year lease in June 2017, for an apartment building that it intends to utilize for student housing. Lease payments will be made on a per occupant basis until January 2018, when payments will be $6,750 per month. Mesalands will charge students for occupying these units. No students occupied units during the current fiscal year and no expense was incurred under this lease.

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 note payable to maturity are as follows for the years ending June 30:

2018	$ 12,782
2019	12,782
2020	12,782
2021	12,782
2022	12,782
2023-2025	50,430
Total	$ 114,340

NOTE H – DEFINED BENEFIT RETIREMENT PLAN

Plan Description

The New Mexico Educational Retirement Board (ERB) was created by the state's Educational Retirement Act, (ERA) Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the 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 state agencies providing educational programs.

The Plan is considered a component unit of the State of New Mexico's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico.

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

NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico. All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11- 2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Benefits 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.

Summary of Plan Provisions for Retirement Eligibility
For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum 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.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Benefits Provided – Continued

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

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013, but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements: The member's minimum age is 55, and has earned 30 or more years of service credit (those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55); the member's minimum age and earned service credit add up to the sum of 80 or more (those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits); the member is at least sixty-seven years of age and has five or more years of earned service credit.

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 reduced to provide for a 50% survivor's benefit.

All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3). Tier 1 membership is comprised of employees who became members prior to July 1, 2010, tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013, and tier 3 membership is comprised of employees who became members on or after July 1, 2013. As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Benefits Provided – Continued

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

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

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, 2017, 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 $406,918 for the year ended June 30, 2017.

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

The total Plan pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The total Plan pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016. At June 30, 2017, the College reported a liability of $7,746,961 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, 2016. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2016, the College's proportion was .10765%, which was a decrease of 0.00748% from its proportion measured as of June 30, 2016.

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

For the year ended June 30, 2017, the College recognized pension expense of $977,997. Pension expense as reported in the Statement of Revenues, Expenses, and Changes in Net Position consists of the amount above less the reversal of the prior year's contributions subsequent to the measurement date and adjustments related to differences between prior year Plan schedules and the College's financial statements. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	$ -	$ 40,074
Changes in assumptions	157,697	
Net difference between projected and actual earnings on pension plan investments	462,429	-
Changes in proportion and differences between the College's contributions and proportionate share of contributions	509,752	-
The College's contributions subsequent to the measurement date	406,918	-
Total	$ 1,536,796	$ 40,074

$406,918 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized in pension expense as follows:

Year Ended June 30:	
2018	$ 361,397
2019	298,850
2020	316,789
2021	112,768
	$ 1,089,804

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Average of Expected Remaining Service Lives	3.77 years
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 0.75% 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 based on age and service rates.
Mortality	Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB. Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012. Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB. Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB. Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.
Cost-of-living increases	2% per year, compounded annually
Contribution accumulation	5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future).
Disability incidence	Approved rates applied to eligible members with at least 10 years of service.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Actuarial Assumptions – Continued

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

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

Asset Class	Target Allocation	Long-term Expected Rate of Return
Equities	35.0%	
Fixed income	28.00%	
Alternatives	36.00%	
Cash	1.00%	
Total	100.00%	7.75%

Discount Rate

A single discount rate of 7.75% was used to measure the total Plan pension liability as of June 30, 2016. 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), Plan'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.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

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	$ 10,260,670	$ 7,746,961	$ 5,661,293

Pension plan fiduciary net position

Detailed information about the Plan's fiduciary net position is available in the separately issued audited financial statements as of and for the year ending June 30, 2016, which is 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 the Plan (which include contributions related to the Alternative Retirement Plan) for fiscal years ending June 30, 2017, 2016, and 2015 were $406,918, $438,204, and $395,791, respectively, which is equal to the amount of the required contributions for each fiscal year.

Payables to the Pension Plan

At June 30, 2017, the College had no outstanding payable to the Plan.

NOTE I – DEFINED CONTRIBUTION RETIREMENT PLAN

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

These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP. The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP, and have certain discretionary authority to decide matters under the ARP. As the ARP trustee ERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

Faculty and professional employees of New Mexico public universities and community colleges have the option of participating in the ARP. 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. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan. Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation.

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. 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

For the year ended June 30, 2017, the employee contributes 10.7% and the employer contributes 10.9% of the employee's gross covered salary to the ARP vendor. Employers pay an additional 3% contribution rate to cover the actuarial impact on the Defined Benefit Plan attributable to employees participating in the ARP. Employer contributions to the ARP for the fiscal years ended June 30, 2017, 2016 and 2015 totaled $32,778, $33,660, and $36,777, respectively. The College's 3% contribution for each year is included in the amount remitted to ERB in Note H.

NOTE J – 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 J – 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, 2017, 2016 and 2015 were $59,949, $66,336, $59,452 respectively, which equal the required contributions for each year.

NOTE K – 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 L – 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. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. 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 L – 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. Net appreciation on investments of donor-restricted endowments was $60,755 for the year ended June 30, 2017. No endowment income was authorized for distribution for the established purpose during the year ended June 30, 2017.

NOTE M – 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 three different endowment fund resources of the College. There is a faculty endowment in the amount of $110,047 originally received from the State Legislature and two endowments established with federal funding totaling $909,558 including a current year addition of $230,000. The legislative endowment is a true endowment and the federally funded endowments are term endowments with restrictions that expire 20 years after the original contribution.

See also Note L.

NOTE N – NEW ACCOUNTING STANDARDS

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 84

GASB Statement No. 84, *Fiduciary Activities* (GASB 84) establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 is effective for periods beginning after December 15, 2018 (FY 20). This statement is not expected to change the College's financial reporting.

GASB 87

GASB Statement No. 87, *Leases* (GASB 87) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 is effective for periods beginning after December 15, 2019 (FY 21) with earlier application encouraged. This statement may have significant effects on the assets and liabilities of the College.

REQUIRED SUPPLEMENTARY INFORMATION

State of New Mexico
Mesalands Community College

SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY
EDUCATIONAL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS*

June 30, 2017

Year Ended June 30	Measurement Date 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	2014	0.09774%	$ 5,576,772	$ 2,892,393	192.8%	66.54%
2016	2015	0.10017%	$ 6,488,278	$ 2,734,962	237.2%	63.97%
2017	2016	0.10765%	$ 7,746,961	$ 2,990,265	259.1%	61.58%

* Years presented represent those for which information is available.

State of New Mexico
Mesalands Community College

SCHEDULE OF CONTRIBUTIONS
EDUCATIONAL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS*

June 30, 2017

Year Ended June 30	Measurement Date 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	2014	$ 354,477	$ 354,257	$ 220	$ 2,892,393	12.25%
2016	2015	$ 395,767	$ 395,791	$ (24)	$ 2,734,962	14.47%
2017	2016	$ 438,204	$ 427,369	$ 10,835	$ 2,990,265	14.29%

* Years presented represent those for which information is available.

NOTES TO DEFINED BENEFIT RETIREMENT PLAN RSI

For the Year Ended June 30, 2017

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

BUDGETARY COMPARISONS -
COMBINED REVENUES AND EXPENDITURES

Year Ended June 30, 2017

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget Over (Under)
Beginning Fund Balance	$ 3,511,160	$ (1,472,185)	$ (1,472,185)	$ -
Combined Revenues:				
Tuition and miscellaneous fees	779,722	779,722	722,195	(57,527)
Federal government appropriations	814,138	814,138	794,093	(20,045)
State government appropriations	4,553,974	4,333,174	4,295,363	(37,811)
Local government appropriations	260,000	260,000	294,452	34,452
Federal government grants and contracts	779,882	712,745	723,153	10,408
State government grants and contracts	153,311	218,969	183,761	(35,208)
Local government grants and contracts	-	-	-	-
Private gifts	100,000	100,000	58,399	(41,601)
Endowments, land, and Perm Fund	-	-	-	-
Sales and services	414,769	414,769	269,607	(145,162)
Other sources	76,137	76,137	88,427	12,290
Capital outlay	2,264,620	2,264,620	1,739,786	(524,834)
Total revenues	10,196,553	9,974,274	9,169,236	(805,038)
Total revenues and fund balance budgeted	13,707,713	8,502,089	7,697,051	(805,038)
Combined Expenditures:				
Instruction and general	6,079,704	5,922,515	5,638,780	(283,735)
Public service	194,605	186,305	181,641	(4,664)
Internal services	67,770	41,370	56,868	15,498
Student aid, grants and stipends	1,182,812	1,182,812	1,021,063	(161,749)
Auxiliary enterprises	227,281	227,281	227,251	(30)
Intercollegiate athletics	179,330	161,397	162,330	933
Capital outlay	2,219,582	2,219,582	1,694,706	(524,876)
Renewal and replacement	57,497	57,497	2,315	(55,182)
Total expenditures	10,208,581	9,998,759	8,984,954	(1,013,805)
Net Transfers	(261,826)	(261,826)	(380,260)	(118,434)
Change in fund balance	(273,854)	(286,311)	(195,978)	90,333
Ending Fund Balance	$ 3,237,306	$ (1,758,496)	$ (1,668,163)	$ 90,333

State of New Mexico
Mesalands Community College

BUDGETARY COMPARISONS -
UNRESTRICTED CURRENT FUNDS - REVENUES AND EXPENDITURES

Year Ended June 30, 2017

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget Over (Under)
Beginning Fund Balance	$ 3,511,160	$ (1,472,185)	$ (1,472,185)	$ -
Unrestricted Revenues:				
Tuition and miscellaneous fees	779,722	779,722	722,195	(57,527)
Federal government appropriations	-	-	-	-
State government appropriations	4,416,800	4,196,000	4,196,000	-
Local government appropriations	260,000	260,000	294,452	34,452
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	414,769	414,769	269,607	(145,162)
Other sources	76,137	76,137	88,427	12,290
Capital outlay	2,264,620	2,264,620	1,739,786	(524,834)
Renewal and replacement	-	-	-	-
Total unrestricted revenues	8,212,048	7,991,248	7,310,467	(680,781)
Unrestricted Expenditures:				
Instruction and general	5,280,511	5,124,801	4,862,249	(262,552)
Student social and cultural	-	-	-	-
Research	-	-	-	-
Public service	60,605	52,305	52,272	(33)
Internal service departments	67,770	41,370	56,868	15,498
Student aid	131,500	131,500	81,828	(49,672)
Auxiliary enterprises	227,281	227,281	227,251	(30)
Intercollegiate athletics	179,330	161,397	162,330	933
Independent operations	-	-	-	-
Capital outlay	2,219,582	2,219,582	1,694,706	(524,876)
Renewal and replacements	57,497	57,497	2,315	(55,182)
Total unrestricted expenditures	8,224,076	8,015,733	7,139,819	(875,914)
Net Transfers	-	-	-	-
Change in fund balance	(12,028)	(24,485)	170,648	195,133
Ending Fund Balance	$ 3,499,132	$ (1,496,670)	$ (1,301,537)	$ 195,133

State of New Mexico
Mesalands Community College

BUDGETARY COMPARISONS -
RESTRICTED CURRENT FUNDS - REVENUES AND EXPENDITURES

Year Ended June 30, 2017

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget Over (Under)
Beginning Fund Balance	$ -	$ -	$ -	$ -
Restricted Revenues:				
Tuition and miscellaneous fees	-	-	-	-
Federal government appropriations	814,138	814,138	794,093	(20,045)
State government appropriations	137,174	137,174	99,363	(37,811)
Local government appropriations	-	-	-	-
Federal government grants and contracts	779,882	712,745	723,153	10,408
State government grants and contracts	153,311	218,969	183,761	(35,208)
Local government grants and contracts	-	-	-	-
Private gifts	100,000	100,000	58,399	(41,601)
Endowments, land, and Perm Fund	-	-	-	-
Sales and services	-	-	-	-
Other sources	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacement	-	-	-	-
Total restricted revenues	1,984,505	1,983,026	1,858,769	(124,257)
Restricted Expenditures:				
Instruction and general	799,193	797,714	776,531	(21,183)
Student social and cultural	-	-	-	-
Research	-	-	-	-
Public service	134,000	134,000	129,369	(4,631)
Internal service departments	-	-	-	-
Student aid	1,051,312	1,051,312	939,235	(112,077)
Auxiliary enterprises	-	-	-	-
Intercollegiate athletics	-	-	-	-
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Total restricted expenditures	1,984,505	1,983,026	1,845,135	(137,891)
Net Transfers	-	-	-	-
Change in fund balance	-	-	13,634	13,634
Ending Fund Balance	$ -	$ -	$ 13,634	$ 13,634

State of New Mexico
Mesalands Community College

BUDGETARY COMPARISONS - UNRESTRICTED CURRENT FUNDS -
SUMMARY OF INSTRUCTION AND GENERAL - REVENUES AND EXPENDITURES

Year Ended June 30, 2017

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget Over (Under)
Beginning Fund Balance	$ 2,691,643	$ 2,568,733	$ 2,314,287	$ (254,446)
Unrestricted Revenues:				
Tuition and miscellaneous fees	779,722	779,722	722,195	(57,527)
Federal government appropriations	-	-	-	-
State government appropriations	4,150,300	3,942,825	3,942,825	-
Local government appropriations	260,000	260,000	294,452	34,452
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	74,637	74,637	87,957	13,320
Total unrestricted revenues	5,264,659	5,057,184	5,047,429	(9,755)
Unrestricted Expenditures:				
Instruction	2,131,892	2,084,695	1,993,288	(91,407)
Academic support	638,801	608,927	580,966	(27,961)
Student services	729,209	719,440	669,266	(50,174)
Institutional support	1,188,421	1,146,421	1,073,561	(72,860)
Operation and maintenance of plant	592,188	565,318	545,168	(20,150)
Total unrestricted expenditures	5,280,511	5,124,801	4,862,249	(262,552)
Net Transfers	(186,829)	(186,829)	(186,829)	-
Change in fund balance	(202,681)	(254,446)	(1,649)	252,797
Ending Fund Balance	$ 2,488,962	$ 2,314,287	$ 2,312,638	$ (1,649)

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, 2017

Budgetary Basis revenues	$ 9,169,236
Additions to endowments	290,755
Other	(355)
Total GAAP basis revenues	$ 9,459,636

Budgetary basis expenditures	$ 8,984,954
Capital expenditures	(1,809,734)
Depreciation expense	772,203
Bad debt expense	46,197
Pension expense	571,079
Other	(3,143)
Total GAAP basis expenditures	$ 8,561,556

State of New Mexico
Mesalands Community College

SCHEDULE OF PLEDGED COLLATERAL

June 30, 2017

	Total Deposits	FDIC or NCUA Insurance	Collateral Required	Collateral Pledged	Security Deficit
1st National Bank of New Mexico	$ 2,285,617	$ (250,000)	$ 1,017,809	$ (2,609,399)	$ -
Wells Fargo	$ 1,061,066	$ (250,000)	$ 405,533	$ (448,320)	$ -
Everyone's Federal Credit Union	$ 36,475	$ (36,475)	$ -	$ -	$ -

All pledged securities are held by the financial institution's agent at:

1st National Bank of New Mexico:

Collateral	CUSIP#	Maturity		Held at
GNMA II Pool #5013	36202FSA5	4/20/2026	$ 519,120	Federal Home Loan Bank
FHLMC Pool #E09015	31294UAQ6	12/1/2027	511,464	of Dallas
FHLMC Pool #G18575	3128MMT94	11/1/2030	785,106	8500 Freeport Parkway South
FNMA Pool #MA1472	31418AT65	6/1/2033	160,622	Suite 100
FNMA Pool #MA1983	31418BFZ4	8/1/2034	633,087	Irving, Texas 75063-2547
			$ 2,609,399	

Wells Fargo

Collateral	CUSIP#	Maturity		Held at
FNMA FNMS 3.5% 01/01/42	3138E6N44	1/1/2042	$ 448,320	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, 2017

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 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	$ 472,084	$ -	$ -	$ 34,919
	Total General Obligation Revenue Bonds					$ 650,000	$ 650,000	$ -	$ 650,000	$ 142,997	$ 472,084	$ -	$ -	$ 34,919
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	-	985,124	-	-	314,876
Severance Tax 16A-2591	MCC Info Tech	Ch 81 Sec 25/3	2016	2017	6/30/2018	105,000	105,000	-	105,000	-	96,935	-	-	8,065
	Total Severance Tax Bonds					$ 1,545,000	$ 1,545,000	$ -	$ 1,545,000	$ -	$ 1,222,059	$ -	$ -	$ 322,941
	Total Capital Appropriations					$ 2,195,000	$ 2,195,000	$ -	$ 2,195,000	$ 142,997	$ 1,694,143	$ -	$ -	$ 357,860

State of New Mexico
Mesalands Community College

COMBINING SCHEDULE OF CHANGES IN ACCOUNT BALANCES – AGENCY FUND

For the Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Auto tech club	$ 1,529	$ -	$ 1	$ 1,528
Astronomy club	196	-	-	196
Gamers club	682	327	51	958
Chi Alpha	446	-	-	446
Diesel club	872	-	1	871
Skills USA club	347	-	-	347
Hot metal club	3,224	1,023	879	3,368
Life savers club	450	-	-	450
Livestock judging	414	-	-	414
Natural sciences club	217	-	1	216
Native American club	909	-	1	908
Peer mentoring	389	-	-	389
Phi Theta Kappa	1,763	160	133	1,790
Robotics club	1,027	879	1,556	350
Rodeo club	5,155	700	2,015	3,840
Farrier SHOE club	10,155	2,229	710	11,674
SIFE	1,270	-	1	1,269
Hispanic heritage club	1,195	250	242	1,203
Student government	512	162	154	520
Truck driving club	395	-	-	395
M.E.S.A. club	293	-	-	293
NAWRTC club	69	-	-	69
Employee office fund	3,614	2,054	791	4,877
GED club	104	-	-	104
Total	$ 35,227	$ 7,784	$ 6,536	$ 36,475

State of New Mexico
Mesalands Community College

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

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	$ -	$ 728,899
College Work Study		84.033	-	24,689
Supplemental Educational Opportunity Grant (SEOG)		84.007	-	19,500
Direct Unsubsidized Loan		84.268	-	5,739
Total Student Financial Assistance Cluster				778,827
Higher Education-Institutional Aid		84.031C	-	481,326
Title V Endowments		84.031	-	909,558
Total U.S Department of Education Direct				2,169,711
Indirect Programs				
Passed through NM Higher Edcuation Department				
Adult Education - Basic Grants to States	V002A140032	84.002	-	48,555
Total U.S Department of Education Indirect				48,555
Total U.S Department of Education				2,218,266
Small Business Administration				
Small Business Development Centers	7620003212	59.037	-	20,689
Total Small Business Administration				20,689
U.S. Department of Labor				
Passed through NM Skill-Up Network Consortium				
Trade Adjustment Assistance Community College and Career Training Grants	TC264861460A35	17.282	-	172,584
Total U.S. Department of Labor				172,584
Total Schedule of Expenditures of Federal Awards				$ 2,411,539

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

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, 2017. 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 in accordance with 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, 2017 and have issued our report thereon dated October 31, 2017.

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.

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. No deficiencies were noted that we consider to be material weaknesses. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2017-001.

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 2017-002 and 2017-003.

Mesalands Community College's Responses to Findings

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.

Albuquerque, New Mexico
October 31, 2017

ATKINSON & CO. LTD
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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, 2017. 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 federal statutes, regulations and terms and conditions of its federal awards 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-004, 2017-005, and 2017-006. Our opinion on each major federal program is not modified with respect to these matters.

Mesalands Community College's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance described in the accompany schedule of findings and questioned costs as items 2017-007 and 2017-008 to be significant deficiencies.

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

Purpose of this Report

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
October 31, 2017

State of New Mexico
Mesalands Community College

SUMMARY OF AUDIT FINDINGS

Year Ended June 30, 2017

Prior Year Findings	**Status**
Findings – Financial Statement	
2016-001 Endowment Funds Not Properly Recorded Or Valued (Material Weakness)	Resolved
2016-002 No Formal Investment Policy (Significant Deficiency)	Resolved
2016-003 No Disaster Recovery Plan (Significant Deficiency)	Modified and Repeated
2016-004 Bank Reconciliations (Significant Deficiency)	Resolved
2016-005 Services Provided by Mesalands Community College Foundation (Significant Deficiency)	Resolved
2016-006 Prior Authorization on Travel Request Forms (Deficiency In Internal Control)	Resolved
2016-007 Collection of Gas Card Receipts (Deficiency In Internal Control)	Resolved
Findings in Accordance with 2.2.2 NMAC (State Audit Rule)	
2016-008 Sole Source Procurement Documentation (Other Noncompliance)	Resolved
2016-009 Full Inventory of Capital Assets Is Not Completed Annually (Other Noncompliance)	Resolved
Findings – Federal Award Findings and Questioned Costs	
None	

Current Year Findings

Findings – Financial Statement

2017-001 (2016-003) Disaster Recovery Plan Not Implemented (Significant Deficiency)
2017-002 Payroll - Employee Underpaid (Deficiency in Internal Control)

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2017-003 Budget overspent from approved amount (Other Noncompliance)

Findings – Federal Award Findings and Questioned Costs

2017-004 Pell Payment Data Reporting Not Submitted Timely (Other Noncompliance)
2017-005 Enrollment Reporting Not Submitted Timely (Other Noncompliance)
2017-006 Verification Testing (Significant Deficiency) (Other Noncompliance)
2017-007 Satisfactory Academic Progress (Significant Deficiency)
2017-008 Students Enrolled In Eligible Programs (Significant Deficiency)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____ Yes _X_ No
• Significant deficiencies identified?	_X_ Yes ____ 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 200.5162(a)?	____ Yes _X_ No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster
84.031	Higher Education-Institutional Aid

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

B. FINANCIAL STATEMENT FINDINGS

2017-001 (2016-003) DISASTER RECOVERY PLAN NOT IMPLEMENTED (SIGNIFICANT DEFICIENCY)

CONDITION
The College approved a disaster recovery plan in June 2017, but the following items were not implemented by year end:

- 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 began to implement a requirement that passwords be changed periodically, however, with the passing of their Director of Institutional Technology, it was not fully implemented before year end. Server equipment safe fire suppression systems are costly and not feasible considering the size of the server room at the College. The College is exploring options for relocating the server room.

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 created and approved its disaster recovery and business continuity plan, but it was not implemented during FY17.

EFFECT
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 a cyberattack or a natural or other disaster. 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 implement their approved disaster recovery plan as soon as possible 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

2017-001 (2016-003) NO DISASTER RECOVERY PLAN IMPLEMENTED (SIGNIFICANT DEFICIENCY) – CONTINUED

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
The College did complete Phase 1 of the project. During this next fiscal year, we complete Phase 2 with the implementation of the plan with an offsite backup storage system.

POINT OF CONTACT
Phillip Gaida, Director of Institutional Technology

2017-002 PAYROLL - EMPLOYEE UNDERPAID (DEFICIENCY IN INTERNAL CONTROL)

CONDITION
During a walkthrough of payroll controls, it was noted that one employee of three tested was underpaid due to a data entry error.

CRITERIA
Controls should be in place to ensure that employees gross pay agrees to their current, approved pay rate and total number of hours worked.

CAUSE
Total pay was manually entered and the miscalculation of total pay was not detected during review.

EFFECT
Employees may not be accurately compensated for hours worked.

RECOMMENDATION
We recommend that more detailed review be performed for gross pay when data is manually entered. Alternatively, work with the software to reduce manual processes.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
The College will calculate the amount owed to the employee and will make one payment to the employee no later than November 24, 2017. The Vice President of Administrative Affairs will complete an audit of all employee salaries in the payroll system.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

C. FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE)

2017-003 BUDGET OVERSPENT (OTHER NONCOMPLIANCE)

CONDITION
The College's actual expenditures exceeded the approved budget in the following areas:

- Unrestricted Current Funds – Internal Service Departments - $15,948
- Unrestricted Current Funds – Intercollegiate Athletics - $933

CRITERIA
Per 5.3.4.10 NMAC, total expenditures may not exceed amounts shown in the approved budgets. Adequate internal controls to minimize budget overspending should ensure that budgets are not exceeded by any amount.

CAUSE
Calculation errors in budget worksheets.

EFFECT
The College is not in compliance with state budget statutes in the noted areas.

RECOMMENDATION
The College should perform a detailed review of budget worksheets to ensure that all schedules are accurate and complete.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
The College will verify that all formulas are correct in the budget worksheets beginning immediately.

POINT OF CONTACT
Amanda Hammer, Vice President of Administrative Affairs

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-004 PELL PAYMENT DATA REPORTING NOT SUBMITTED TIMELY (OTHER NONCOMPLIANCE)
Program: Student Financial Assistance Cluster
CFDA No.: 84.063, 84.033, 84.007 and 84.268
Period: 7/1/2016 – 6/30/2017

CONDITION
During our audit, we noted that 2 of 3 Pell payment data reports tested were submitted more than 15 days after disbursement to the students was made.

CRITERIA
Pell payment data must be submitted to the Department of Education through Common Origination and Disbursement system (COD) no earlier than 7 days prior to and no later than 15 days after disbursement to the student has been made.

CAUSE
The College used the date the checks were cut to the students as the date of disbursement instead of the date the students accounts were credited in Jenzabar (accounting software) as the start of the 15 day requirement.

EFFECT
Not in compliance with program reporting requirements.

QUESTIONED COSTS
None.

RECOMMENDATION
We recommend that the College alter its schedule of reporting Pell payment data to be based on the date when Financial Aid awards are credited to students accounts instead of when checks are cut to ensure that the reporting is submitted timely.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
Pell reports will be submitted to COD on same date payments are credited to student accounts beginning immediately.

POINT OF CONTACT
Jessica Gonzales, Director of Financial Aid

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

2017-005 ENROLLMENT REPORTING NOT SUBMITTED TIMELY (OTHER NONCOMPLIANCE)
Program: Student Financial Assistance Cluster
CFDA No.: 84.063, 84.033, 84.007 and 84.268
Period: 7/1/2016 – 6/30/2017

CONDITION
During our audit, we noted that 2 of 3 NSLDS reports tested were submitted to the Department of Education more than 15 days after the enrollment reporting roster file was received by the College.

CRITERIA
The College must update changes to student status using the NSLDS system no more than 15 days after the College receives the Enrollment Reporting Roster File from the Department of Education.

CAUSE
The College does not use the roster file to update student enrollment status, but instead updates the students' files online every 30 days. We did note that the College receives the Enrollment Reporting Roster File from the Department of Education less frequently than every 60 days which is the minimum noted in the Compliance Supplement.

EFFECT
Not in compliance with program requirements related to special provisions regarding enrollment reporting.

QUESTIONED COSTS
None.

RECOMMENDATION
We recommend that the Director of Financial Aid be aware of the date of the receipt of the roster file as the compliance requirement is based on the date the file was received by the College. We also recommend that the College ensure that they are receiving the Enrollment Reporting Roster File at least every 60 days from the Department of Education as required.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
Enrollment reporting in NSLDS is reported every 30 days. Reporting is done typically during the third week of the month. We will adjust and submit monthly updates prior to the 15^{th} of each month beginning immediately.

POINT OF CONTACT
Jessica Gonzales, Director of Financial Aid

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

2017-006 VERIFICATION AND VERIFICATION POLICY (SIGNIFICANT DEFICIENCY) (OTHER NONCOMPLIANCE)
Program: Student Financial Assistance Cluster
CFDA No.: 84.063, 84.033, 84.007 and 84.268
Period: 7/1/2016 – 6/30/2017

CONDITION
No controls over the verification compliance requirement were identified.

There was no verification worksheet on file for 3 out of 51 students tested. These students were selected for verification and all items were collected except the verification worksheet which verifies household size, number in college, SNAP benefits, and child support paid.

The College's written Financial Aid Verification Policy does not include the following:

- Required student notifications,
- Procedures the College will follow to correct FAFSA information,
- Procedures for making referrals under 34 CFR 668.16(g), and
- Provision that an applicant whose FAFSA information is selected for verification is required to complete verification before the institution exercises any authority under section 479A(a) of the HEA to make changes to the applicant's cost of attendance or to the values of the data items required to calculate the EFC.

CRITERIA
2 CFR 200.303 requires that entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal statues, regulations, and the terms and conditions of the Federal award.

An institution shall require each applicant whose application is selected by the Department of Education to verify the information specified in 34 CFR Section 668.56. In addition, the College's Verification Policy states that a verification worksheet must be collected from all students who are selected for verification.

The College must follow written policies and procedures that incorporate the provisions of 34 CFR Sections 668.51 through 668.61 for verifying applicant information.

CAUSE
The type of verification that these students were selected for had a parameter set up in the financial aid software that did not cause a "verification worksheet flag" to populate in the students electronic file. As such, the Director of Financial Aid did not collect one from the student.

There is no known cause for noncompliance related to the verification policy or lack of internal controls.

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

2017-006 VERIFICATION AND VERIFICATION POLICY (SIGNIFICANT DEFICIENCY) (OTHER NONCOMPLIANCE) – CONTINUED

EFFECT
Students who did not complete the verification process may not have been eligible to receive financial aid.

Policies and procedures create an opportunity for verification requirements to be missed causing ineligible students to be awarded financial aid funds.

QUESTIONED COSTS
None to report.

RECOMMENDATION
We recommend that the College correct the parameters for all verification types to ensure that all information required to be verified is collected, ensure that all required provisions of 34 CFR Sections 668.51 through 668.61 are included in the Verification Policy, and develop controls to prevent or detect and correct noncompliance.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
An error was done when setting up award year parameters. This verification group documents were attached to dependent students instead of independent students. Award Year 2017-18 has been reviewed for this error and it does not occur. Moving forward when new award years are created and parameters are set, the Vice President of Administrative Affairs will verify and ensure that parameters and documents are set properly.

Vice President of Administrative Affairs will conduct a random audit of verified student files each semester to ensure verification is completed.

Verification policy will be updated and corrected by December 15, 2017.

POINT OF CONTACT
Jessica Gonzales, Director of Financial Aid

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

2017-007 CONTROLS OVER ELIGIBILITY – SATISFACTORY ACADEMIC PROGRESS (SIGNIFICANT DEFICIENCY) – CONTINUED

Program: Student Financial Assistance Cluster
CFDA No.: 84.063, 84.033, 84.007 and 84.268
Period: 7/1/2016 – 6/30/2017

CONDITION
The Colleges' process to verify that students are making satisfactory academic progress includes the Director of Financial Aid reviewing their transcripts after each semester and place it in their file as indication of this review. However, 5 of 40 students did not have a copy of their transcript in their student file in order to verify that the student was making satisfactory academic progress.

CRITERIA
There must be controls in place used to ensure that students are making satisfactory academic progress.

CAUSE
The financial aid software runs an automatic process where it extracts information from Jenzabar, and based on this process should automatically update academic progress as appropriate. However, the system does not always process this information correctly and a manual process is performed as a backup.

EFFECT
It is possible that students who are not making satisfactory academic progress could receive financial aid funds.

RECOMMENDATION
Review procedures for verifying satisfactory academic progress to include evaluating the role of IT in the process.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
IT will be contacted to ensure that SAP data from Jenzabar is properly transferred to PowerFAIDS (financial aid software). Student transcripts will continue to be placed in the students file at the end of each semester and SAP progress will be updated in Powerfaids, if not calculated properly. Vice President of Administrative Affairs will conduct a random audit of student files to ensure that Satisfactory Academic Progress was completed each semester beginning in January 2018.

POINT OF CONTACT
Jessica Gonzales, Director of Financial Aid

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

2017-008 CONTROLS OVER ACTIVITIES ALLOWED – STUDENTS ENROLLED IN ELIGIBLE PROGRAMS (SIGNIFICANT DEFICIENCY)

Program: Student Financial Assistance Cluster
CFDA No.: 84.063, 84.033, 84.007 and 84.268
Period: 7/1/2016 – 6/30/2017

CONDITION
During out audit, we noted that 8 of 40 students did not have a degree program specified in the financial aid software. The College has identified a process to ensure students are not awarded financial aid unless they are enrolled in an eligible degree program. However, when reviewing students' electronic files in the software, there were 8 of 40 students who did not have an eligible program specified, but who were still awarded financial aid. The students were actually enrolled in eligible programs.

CRITERIA
Student Financial Aid funds can only be awarded to students enrolled in eligible programs.

CAUSE
The transfer of data from the software used by the admissions office to the financial aid software failed to transfer all of the appropriate data.

EFFECT
This programming error could cause ineligible students to receive financial aid funds as there is no control in place to prevent students who do not have an eligible program specified in the financial aid software to be flagged.

RECOMMENDATION
We recommend that the College implement a control or set a parameter in the financial aid software that would allow the system to identify when an eligible program is not specified, prior to the student being awarded financial aid funds.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
New controls have been added to the 2017-18 Award in Powerfaids, that students cannot be processed without proper CIP codes in place for eligible programs. Will work with IT to ensure that the necessary information is populated through Jenzabar. Expect to be implemented by the end of fiscal year 2018.

POINT OF CONTACT
Jessica Gonzales, Director of Financial Aid

EXIT CONFERENCE

June 30, 2017

An exit conference was held on October 26, 2017, with the following in attendance:

For Mesalands Community College:

James P. Streetman	Vice Chair, Board of Trustees
Dr. Thomas W. Newsom	President
Amanda Hammer	VP of Administrative Affairs
Bronson Moore	Chair, Board of Trustees

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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