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**STATE OF NEW MEXICO
MESALANDS COMMUNITY COLLEGE**

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2018

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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State of New Mexico
Mesalands Community College

June 30, 2018

OFFICIAL ROSTER

Board of Trustees

James Streetman	Chair
Teresa Stephenson	Vice-Chair
Liz Estrada	Secretary
Jimmy Sandoval	Member
Craig T. Currell	Member

Executive Personnel

Dr. Thomas W. Newsom	President (through April 2018)
Natalie Gillard	Vice President of Academic Affairs/ Interim President
Dr. Aaron Kennedy	Vice President of Student Affairs
Natalie Gillard Amanda Hammer	Vice President of Administrative Affairs

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mesalands Community College
Tucumcari, New Mexico
and
Mr. Wayne A. Johnson
New Mexico State Auditor

Report on 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, 2018, and the related notes to the financial statements which collectively comprise the College's basic financial statements as listed in the table of contents. We also have audited the budget comparisons presented as supplemental information, as defined by the Governmental Accounting Standards Board, as of and for the year ended June 30, 2018, 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.

Opinion

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, 2018, 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 Matters

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, 2018, 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 (GAAP).

As discussed in Note J to the financial statements, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As part of implementation of this statement, the College recorded its pro rata share of unfunded liabilities for its postemployment health benefit plan participation in the New Mexico Retiree Health Care Authority multi-employer cost sharing plan and included disclosures required by the statement. Our opinion is not modified with respect to this matter.

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 and other postemployment benefit schedules and related notes on pages 45-50 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.

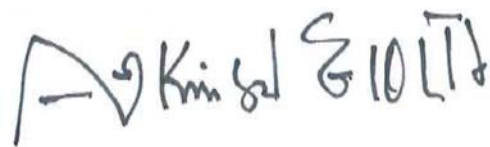
Other Information

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 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 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 30, 2018, 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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial "A" on the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 30, 2018

State of New Mexico
Mesalands Community College

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended June 30, 2018

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, 2018. 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 2018.

Using Basic Financial Statements

The Statement of Net Position presents the assets, liabilities, net assets and deferred outflows and deferred inflows of the College as of the end of the fiscal year 2018. It is a point-in-time financial statement, the purpose of which is to give the readers a fiscal snapshot of the condition of Mesalands Community College. The statement presents end-of-year data concerning current and non-current assets, current and non-current liabilities, and net assets.

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

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

Financial Highlights

Net Position decreased by \$5,665,472 in 2018 over net position in 2017. The decrease is primarily due to the increase in pension and other postemployment benefits liabilities.

Total assets for 2018 were decreased by \$93,480 over total assets in 2017. The decrease is related to a net decrease in capital assets.

Total revenues in fiscal year 2018 were \$7,466,145 as compared to \$9,459,636 in fiscal year 2017 with the significant difference being in capital revenues. State appropriations account for the largest source of revenue at \$4,114,800. During 2018, grants and contracts generated revenues of \$1,341,745. In 2018, student tuition and fee revenue increased by \$102,617 as compared to 2017.

Deferred Outflows in 2018 increased by \$2,297,284 and Deferred Inflows increased by \$857,514. Both of these changes were influenced by changes in pension and other post-employment benefits actuarial assumptions.

Reporting Entity

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

State of New Mexico
Mesalands Community College

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2018

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

	Balance June 30, 2018	Balance June 30, 2017	Difference	% Change
Current assets	\$ 5,006,726	\$ 4,776,504	\$ 230,222	4.8%
Capital assets, net	19,485,373	19,845,813	(360,440)	-1.8%
Assets held by others	1,056,344	1,019,606	36,738	3.6%
Total Assets	25,548,443	25,641,923	(93,480)	-0.4%
Deferred Outflows	3,834,080	1,536,796	2,297,284	149.5%
Total Assets and Deferred Outflows	\$ 29,382,523	\$ 27,178,719	\$ 2,203,804	8.1%
Current Liabilities	\$ 556,816	\$ 608,014	\$ (51,198)	-8.4%
Non-Current Liabilities	14,945,068	7,882,108	7,062,960	89.6%
Total Liabilities	15,501,884	8,490,122	7,011,762	82.6%
Deferred Inflows	897,588	40,074	857,514	2139.8%
Net Position				
Net investment in capital assets	19,383,815	19,731,473	(347,658)	-1.8%
Restricted net position	1,056,344	1,019,606	36,738	3.6%
Unrestricted net position	(7,457,108)	(2,102,556)	(5,354,552)	254.7%
Total Net Position	12,983,051	18,648,523	(5,665,472)	-30.4%
Total Liabilities, Deferred Inflows and Net Position	\$ 29,382,523	\$ 27,178,719	\$ 2,203,804	8.1%

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, 2018, equal \$2,940,816, 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 2018 were \$556,816.

Non-current assets are capital assets, net of accumulation of depreciation, for 2018 were \$19,485,373. The capital assets decrease was largely due to depreciation expense for the year.

For fiscal year 2018 the College has debt in the amount of \$101,558 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.

State of New Mexico
Mesalands Community College

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2018

Net Position

There was a significant decrease in Net Position due to an increase in the net pension liability and the addition of the net other postemployment benefits liability due to the implementation of GASB Statement 75.

Condensed Summary of Revenue, Expenses, and Changes in Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Difference</u>	<u>%</u>
Operating Revenue	\$ 2,595,040	\$ 2,913,388	\$ (318,348)	-10.9%
Operating Expense	<u>9,267,755</u>	<u>8,561,556</u>	<u>706,199</u>	8.2%
Operating Loss	(6,672,715)	(5,648,168)	(1,024,547)	18.1%
Non-Operating Revenue	<u>4,409,303</u>	<u>4,502,451</u>	<u>(93,148)</u>	-2.1%
Loss before other revenues and capital items	(2,263,412)	(1,145,717)	(1,117,695)	97.6%
Other revenues and capital items	<u>461,802</u>	<u>2,043,797</u>	<u>(1,581,995)</u>	-77.4%
Increase (Decrease) in net position	<u>\$ (1,801,610)</u>	<u>\$ 898,080</u>	<u>\$ (2,699,690)</u>	-300.6%

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2018

General Budgetary Highlights

The net pension liability balance from 2017 was incorporated into the College's available budgeted unrestricted net position. This has resulted in a negative unrestricted expendable net position for the College on a budgetary basis. This negative net position will grow with the current year increase in the net pension liability of approximately \$4 million and the addition of the net other postemployment benefits liability of approximately \$3 million.

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.

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

June 30, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 2,940,816
Student accounts receivable, net of allowance for doubtful accounts of \$105,744	134,157
Due from grantors	673,371
Due from other agencies	105,009
Short-term investments	941,056
Inventories	193,823
Prepaid expenses	<u>18,494</u>

Total current assets 5,006,726

Noncurrent assets

Capital assets, net	19,485,373
Assets held by others	<u>1,056,344</u>

Total noncurrent assets 20,541,717

Total assets 25,548,443

DEFERRED OUTFLOWS OF RESOURCES

Pension	3,772,826
Other postemployment benefits	<u>61,254</u>

Total deferred outflows of resources 3,834,080

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

State of New Mexico
Mesalands Community College

STATEMENT OF NET POSITION – CONTINUED

June 30, 2018

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$ 375,335
Student deposits	9,805
Unearned revenue	47,297
Compensated absences, current portion	111,597
Note payable, current portion	12,782

556,816

Noncurrent liabilities

Compensated absences, less current portion	165,476
Note payable, less current portion	88,776
Net pension liability	11,437,981
Net other postemployment benefits liability	3,252,835

14,945,068

Total liabilities 15,501,884

DEFERRED INFLOWS OF RESOURCES

Pension	157,250
Other postemployment benefits	740,338

897,588

NET POSITION

Net investment in capital assets	19,383,815
Restricted for nonexpendable endowments	1,056,344
Unrestricted	
Nonexpendable prepaid expenses and inventories	212,317
Expendable (deficit)	(7,669,425)

\$ 12,983,051

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

State of New Mexico
Mesalands Community College

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2018

OPERATING REVENUES	
Federal grants and contracts	\$ 997,424
Student tuition and fees	871,942
State and local grants and contracts	344,321
Sales and services of auxiliary enterprises	301,347
Other operating revenues	<u>80,006</u>
 Total operating revenues	 2,595,040
OPERATING EXPENSES	
Instruction and general	
Instruction	2,037,483
Institutional support	1,057,734
Student services	626,949
Operations and maintenance of plant	545,319
Academic support	522,286
Pension expense	1,973,769
Student aid, grants and stipends	1,022,886
Depreciation	781,268
Auxiliary enterprises	292,304
Public Service	141,618
Other postemployment benefits expense	129,311
Intercollegiate athletics	126,453
Bad debt expense	27,791
Renewals and replacements	7,085
Internal services	<u>(24,501)</u>
 Total operating expenses	 <u>9,267,755</u>
 Operating loss	 <u>(6,672,715)</u>

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

State of New Mexico
Mesalands Community College

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
CONTINUED**

Year Ended June 30, 2018

NONOPERATING REVENUES	
State appropriations	4,114,800
Local taxes	278,939
Interest and other investment income	<u>15,564</u>
Total nonoperating revenues	<u>4,409,303</u>
Loss before other revenues and capital items	(2,263,412)
OTHER REVENUES AND CAPITAL ITEMS	
Capital appropriations from state issued bonds	402,302
Additions to permanent endowments	36,738
Contributions	<u>22,762</u>
Total other revenues and capital items	<u>461,802</u>
Change in net position	(1,801,610)
Net position, beginning of year before restatements	18,648,523
Prior period restatement	<u>(3,863,862)</u>
Net position, beginning of year as restated	<u>14,784,661</u>
Net position, end of year	<u><u>\$ 12,983,051</u></u>

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, 2018

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from grants and contracts	\$ 917,160
Receipts from student tuition and fees	830,665
Receipts from sales and services of auxiliary enterprises	344,321
Other receipts	80,006
Payments to or on behalf of employees	(3,516,962)
Payment to suppliers for goods and services	<u>(3,227,928)</u>
Net cash used by operating activities	<u>(4,572,738)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	4,114,800
Property tax revenues	278,939
Contributions	22,762
Additions to endowments	<u>36,738</u>
Net cash provided by noncapital financing activities	<u>4,453,239</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(420,828)
Capital appropriations from state issued bonds	437,253
Repayments of notes payable	<u>(12,782)</u>
Net cash used by capital and related financing activities	<u>3,643</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net purchases of short-term investments	(236,707)
Purchases of investments held by others	(36,738)
Investment earnings	<u>15,564</u>
Net cash used by investing activities	<u>(257,881)</u>
Increase in cash and cash equivalents	(373,737)
Cash and cash equivalents, beginning of year	<u>3,314,553</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,940,816</u></u>

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, 2018

Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of net operating loss to net cash used by operating activities	
Operating loss	\$ (6,672,715)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	781,268
Net pension expense	1,973,769
Net OPEB expense	129,311
Deferred employer pension contributions	(401,603)
Deferred OPEB contributions	(61,254)
Bad debt expense	27,791
Changes in assets and liabilities	
Student accounts receivable	(55,393)
Due from grantors	(381,611)
Inventories	7,010
Prepaid expenses	-
Accounts payable and accrued expenses	64,351
Student deposits	2,675
Unearned revenue	11,441
Compensated absences	2,222
	<hr/>
Net cash used by operating activities	<u><u>\$ (4,572,738)</u></u>

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

State of New Mexico
Mesalands Community College

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS

June 30, 2018

ASSETS

Cash on deposit \$ 43,615

Total Assets \$ 43,615

LIABILITIES

Due to student groups \$ 43,615

Total Liabilities \$ 43,615

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 institution was authorized by the New Mexico Commission on Higher Education to offer Associate of Applied Science degrees in Business Administration and Computer Information Systems. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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. The College has no component units.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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) NM Higher Education Department, 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.

6. Cash and Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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. A provision for uncollectible student accounts is recorded to maintain an 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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:

	<u>Life in Years</u>
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 2018, 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 2018 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2018.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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, 2018.

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; 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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 revenue in the College's financial statements. To the extent that revenues 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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. See Note H.

20. Postemployment Benefits Other Than Pensions (OPEB)

The College implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* effective July 1, 2017. As a result, the College reported its pro rata share of unfunded liabilities for its postemployment health benefit participation in the New Mexico Retiree Health Care Authority's multi-employer cost sharing plan. See Note J.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms.

21. Subsequent Events

Subsequent events have been evaluated through October 30, 2018, 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.

State of New Mexico
Mesalands Community College

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE B – CASH AND INVESTMENTS

1. Cash

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

A detail of the cash accounts at June 30, 2018, 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	\$ 1,993,373	\$ (100,453)	\$ 1,892,920
First National Bank of New Mexico	Payroll	Deposit	3,040	(214)	2,826
Wells Fargo	General	Deposit	1,041,789	2,013	1,043,802
Everyone's Federal Credit Union	Agency	Share Draft	43,615	-	43,615
			3,081,817	(98,654)	2,983,163
	Petty Cash	N/A	-	-	1,268
	Less: Agency fund cash	N/A	(43,615)	-	(43,615)
			<u>\$ 3,038,202</u>	<u>\$ (98,654)</u>	<u>\$ 2,940,816</u>

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, 2018, the College's custodial credit risk was as follows:

Total deposits all banks	\$ 3,038,202
Less: FDIC or NCUA coverage	<u>500,000</u>
Uninsured public funds	<u>2,538,202</u>
50% collateral required	1,269,101
Pledged collateral held by pledging banks' agents in the name of the College	<u>2,817,241</u>
Uninsured and un-collateralized	<u>\$ -</u>

State of New Mexico
Mesalands Community College

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE B – CASH AND INVESTMENTS – CONTINUED

2. Investments

Investments of the College consist of the following at June 30, 2018:

<u>Name of Institution</u>	<u>Investment type</u>	<u>Balance per Custodian Statement</u>	<u>Reconciled Balance per Books</u>
Tucumcari Federal Savings and Loan	Certificates of Deposit	\$ 241,094	\$ 240,868
Quay Schools Federal Credit Union	Certificates of Deposit	240,990	240,990
Everyone's Federal Credit Union	Certificates of Deposit	218,181	218,181
Citizens Bank	Certificates of Deposit	241,017	241,017
		<u>\$ 941,282</u>	<u>\$ 941,056</u>

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, 2018, consists of the following:

	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net</u>
Student tuition and fees	\$ 239,901	\$ 105,744	\$ 134,157
Grants receivable	673,371	-	673,371
State GO/STB bond receivable	105,009	-	105,009
Total accounts receivable	<u>\$ 1,018,281</u>	<u>\$ 105,744</u>	<u>\$ 912,537</u>

State of New Mexico
Mesalands Community College

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Retirements	Transfers	Balance June 30, 2018
Land	\$ 822,495	\$ -	\$ -	\$ -	\$ 822,495
Museum collection	1,149,816	-	-	-	1,149,816
Construction in progress	1,686,386	395,217	-	(2,081,603)	-
Total assets not being depreciated	3,658,697	395,217	-	(2,081,603)	1,972,311
Leasehold improvements	22,373	-	-	-	22,373
Library books	257,839	-	-	4,082	261,921
Buildings	18,209,988	-	-	2,081,603	20,291,591
Equipment	6,143,426	25,611	-	(4,082)	6,164,955
Total depreciable assets	24,633,626	25,611	-	2,081,603	26,740,840
Total capital assets	28,292,323	420,828	-	-	28,713,151
Accumulated Depreciation					
Leasehold improvements	22,373	-	-	-	22,373
Library books	191,627	6,350	-	-	197,977
Buildings and improvements	4,440,646	475,316	-	-	4,915,962
Equipment	3,791,864	299,602	-	-	4,091,466
Total accumulated depreciation	8,446,510	781,268	-	-	9,227,778
Capital assets, net	\$ 19,845,813	\$ (360,440)	\$ -	\$ -	\$ 19,485,373

NOTE E – COMPENSATED ABSENCES PAYABLE

Compensated absences activity for the year ended June 30, 2018, is as follows:

	June 30, 2017	Additions	Reductions	June 30, 2018	Amounts Due in One Year
Total compensated absences	\$ 274,851	\$ 165,476	\$ (163,254)	\$ 277,073	\$ 111,597

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, 2018 was \$67,375.

State of New Mexico
Mesalands Community College

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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, 2017, and ended June 30, 2018. Monthly payments under these leases amount to \$442 and are subject to annual renewal.

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 were made on a per occupant basis until January 2018, when payments changed to \$6,750 per month. Mesalands charges students for occupying these units. Student occupancy began in January 2018.

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

2019	\$ 79,260
2020	18,382
2021	<u>3,064</u>
Total	<u>\$ 100,706</u>

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:

2019	\$ 12,782
2020	12,782
2021	12,782
2022	12,782
2023	12,782
2024-2025	<u>37,648</u>
Total	<u>\$ 101,558</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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 by 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 of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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%.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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 years 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, 2018, 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 \$401,603 for the year ended June 30, 2018.

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, 2016. The total Plan pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2017. At June 30, 2018, the College reported a liability of \$11,437,981 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, 2017. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2017, the College's proportion was .10292%, which was a decrease of 0.00473% from its proportion measured as of June 30, 2016.

State of New Mexico
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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, 2018, the College recognized pension expense of \$1,973,769. 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, 2018, the College reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual actuarial experience	\$ -	\$ 155,681
Changes in assumptions	3,338,972	-
Net difference between projected and actual earnings on pension plan investments	-	1,569
Changes in proportion and differences between the College's contributions and proportionate share of contributions	32,251	-
The College's contributions subsequent to the measurement date	<u>401,603</u>	<u>-</u>
Total	<u>\$ 3,772,826</u>	<u>\$ 157,250</u>

\$401,603 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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:

2019	\$ 1,286,565
2020	1,300,848
2021	720,743
2022	(94,183)
	<u>\$ 3,213,973</u>

State of New Mexico
Mesalands Community College

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Actuarial Assumptions

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

Actuarial Cost Method	Entry Age Normal
Average of Expected Remaining Service Lives	3.65 years
Inflation	2.50%
Salary Increases	3.25%. Composition: 2.50% 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	7.25% compounded annually, net of expenses. This is made up of a 2.50% inflation rate and a 4.75 real rate of return.
Retirement Age	Experience based table based on age and service rates.
Mortality	<p>Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB.</p> <p>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.</p> <p>Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.</p> <p>Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p>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.</p>
Cost-of-living increases	1.90% per year, compounded annually
Contribution accumulation	5.50% 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Actuarial Assumptions – Continued

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 April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted several economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

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	35.00%	
Fixed income	28.00%	
Alternatives	36.00%	
Cash	1.00%	
Total	100.00%	7.25%

Discount Rate

A single discount rate of 5.90% was used to measure the total Plan pension liability as of June 30, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.56%. Based on the stated assumptions and the projection of cash flows, the Plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2053. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2053 fiscal year, and the municipal bond rate was applied to all benefit payments after that date. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE H – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Discount Rate – Continued

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.

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 5.90 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 (4.90 percent) or 1-percentage-point higher (6.90 percent) than the current rate.

	1% Decrease (4.90%)	Current Discount Rate (5.90%)	1% Increase (6.90%)
College's proportionate share of the net pension liability	\$ 14,889,407	\$ 11,437,981	\$ 8,616,722

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, 2017, 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, 2018, 2017, and 2016 were \$401,603, \$406,918, and \$438,204, respectively, which is equal to the amount of the required contributions for each fiscal year.

Payables to the Pension Plan

At June 30, 2018, the College had \$65,878 payable to the Plan for the most recent pay period's employer and employee contributions.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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, 2018, 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, 2018, 2017, and 2016 totaled \$33,502, \$32,778, and \$33,660, respectively. The College's 3% contribution for each year is included in the amount remitted to ERB in Note H.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE J – OTHER POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE – PLAN

Plan Description: Mesalands Community College contributes to the New Mexico Retiree Health Care Fund (the Fund), a cost-sharing multiple-employer defined benefit post-employment healthcare plan (OPEB) administered by the New Mexico Retiree Health Care Authority (RHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA's financial information is included with the financial presentation of the State of New Mexico. 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 or online at www.nmrhca.org.

Benefits Provided

The Fund is a multiple-employer cost-sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE J – OTHER POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

Funding Policy – Continued

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.

Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Fund.

The College's contributions to the RHCA for the years ended June 30, 2018, 2017 and 2016 were \$61,254, \$61,617, \$66,336 respectively, which equal the required contributions for each year.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the College reported a liability of \$3,252,835 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The College's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the College's proportion was 0.07178 percent.

For the year ended June 30, 2018, the College recognized OPEB expense of \$129,311. At June 30, 2018 the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ -	\$ 124,827
Changes in assumptions	-	568,717
Net difference between projected and actual earnings on OPEB plan investments	-	46,794
The College's contributions subsequent to the measurement date	61,254	-
Total	\$ 61,254	\$ 740,338

State of New Mexico
Mesalands Community College

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE J – OTHER POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

Deferred outflows of resources totaling \$61,254 represent School contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended June 30:

2019	\$ (157,401)
2020	(157,401)
2021	(157,401)
2022	(157,401)
2023	(110,734)
	<u>\$ (740,338)</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2017. The mortality, retirement, disability, turnover and salary increase assumptions are based on the PERA annual valuation as of June 30, 2016 and the ERB actuarial experience study as of June 30, 2016. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Inflation	2.50% for ERB members
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs
Mortality	ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE J – OTHER POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, were used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

<u>Asset Class</u>	<u>Long-term Expected Rate of Return</u>
U.S. core fixed income	4.10%
U.S. equity - large cap	9.10%
Non U.S. - emerging markets	12.20%
Non U.S. - developed equities	9.80%
Private equity	13.80%
Credit and structured finance	7.30%
Real estate	6.90%
Absolute return	6.10%
U.S. equity - small/mid cap	9.10%

Discount Rate

The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029.

Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher of 3.58% was used. Thus, 3.81% is the blended discount rate.

State of New Mexico
Mesalands Community College

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE J – OTHER POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates

The following presents the net OPEB liability of the College, as well as what the College's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

	1% Decrease (2.81%)	Current Discount Rate (3.81%)	1% Increase (4.81%)
College's proportionate share of the net OPEB liability	\$ 3,945,638	\$ 3,252,835	\$ 2,709,269

The following presents the net OPEB liability of the College, as well as what the College's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Trend Rate	1% Increase
College's proportionate share of the net OPEB liability	\$ 2,766,760	\$ 3,252,835	\$ 3,631,853

Payables to the OPEB Plan

At June 30, 2018, the School reported a payable of \$2,083 for outstanding contributions due to NMRHCA for the last pay period of the year ended June 30, 2018.

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 transferred upon the payment of premiums by the College to the New Mexico Public School Authority. The Authority reevaluates premiums annually and Mesalands Community College's risk is limited to premiums paid and respective deductibles.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

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.

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. A reference point for appropriation decisions is the total of all original contributions received from external contributors. 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 \$36,738 for the year ended June 30, 2018. No endowment income was authorized for distribution for the established purpose during the year ended June 30, 2018.

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 \$115,331 originally received from the State Legislature and two endowments established with federal funding totaling \$941,013. 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 – RESTATEMENT OF NET POSITION

Unrestricted net position was restated in the amount of \$3,863,862 which consists of the beginning net OPEB liability of \$3,925,479 less beginning deferred outflows related to OPEB of \$61,617.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2018

NOTE O – FUTURE ACCOUNTING STANDARDS

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, 2018

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%
2018	2017	0.10292%	\$ 11,437,981	\$ 2,990,102	382.5%	52.95%

* 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, 2018

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%
2018	2017	\$ 406,918	\$ 407,414	\$ (496)	\$ 2,990,102	13.63%

* Years presented represent those for which information is available.

NOTES TO DEFINED BENEFIT RETIREMENT PLAN RSI

For the Year Ended June 30, 2018

NOTE A – CHANGES OF BENEFIT TERMS

There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2017.

NOTE B – CHANGES OF ASSUMPTIONS

Actuarial assumptions and methods are set by the Board of Trustees of ERB, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted a number of economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

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

State of New Mexico
Mesalands Community College

**SCHEDULE OF THE PROPORTIONATE SHARE OF NET OPEB LIABILITY
RETIREE HEALTH CARE FUND
LAST 10 FISCAL YEARS***

June 30, 2018

<u>Year Ended June 30</u>	<u>Measurement Date June 30</u>	<u>College's proportion of the net OPEB liability</u>	<u>College's proportionate share of the net OPEB liability</u>	<u>College's covered payroll</u>	<u>College's proportionate share of the net OPEB liability as a percentage of its covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total OPEB liability</u>
2018	2017	0.07178%	\$ 3,252,835	\$ 2,990,102	108.79%	11.34%

* Years presented represent those for which information is available.

State of New Mexico
Mesalands Community College

**SCHEDULE OF CONTRIBUTIONS
RETIREE HEALTH CARE FUND
LAST 10 FISCAL YEARS***

June 30, 2018

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
2018	2017	\$ 61,617	\$ 61,625	\$ (8)	\$ 2,990,102	2.06%

* Years presented represent those for which information is available.

State of New Mexico
Mesalands Community College

NOTES TO DEFINED OPEB PLAN RSI

For the Year Ended June 30, 2018

NOTE A – CHANGES OF BENEFIT TERMS

There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2017.

NOTE B – CHANGES OF ASSUMPTIONS

Actuarial assumptions and methods are set by the Board, based upon recommendations made by the Plan's actuary. The discount rates used to determine the NOL as of June 30, 2017 and 2016 were 3.81% and 3.05%.

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

SUPPLEMENTARY INFORMATION

State of New Mexico
Mesalands Community College

**BUDGETARY COMPARISONS -
COMBINED REVENUES AND EXPENDITURES**

Year Ended June 30, 2018

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget Over (Under)
Beginning Fund Balance	\$ 4,472,788	\$ (2,451,758)	\$ (2,451,758)	\$ -
Combined Revenues:				
Tuition and miscellaneous fees	699,185	669,185	822,609	153,424
Federal government appropriations	839,138	839,138	871,443	32,305
State government appropriations	4,251,974	4,281,974	4,208,432	(73,542)
Local government appropriations	270,000	270,000	283,207	13,207
Federal government grants and contracts	162,361	206,573	177,705	(28,868)
State government grants and contracts	218,969	218,969	205,195	(13,774)
Private gifts	100,000	100,000	22,762	(77,238)
Sales and services	463,232	463,232	304,171	(159,061)
Other sources	73,281	73,281	92,878	19,597
Capital outlay	2,314,726	2,314,726	449,908	(1,864,818)
Total revenues	<u>9,392,866</u>	<u>9,437,078</u>	<u>7,438,310</u>	<u>(1,998,768)</u>
Total revenues and fund balance budgeted	<u>13,865,654</u>	<u>6,985,320</u>	<u>4,986,552</u>	<u>(1,998,768)</u>
Combined Expenditures:				
Instruction and general	5,254,666	5,326,150	5,230,408	(95,742)
Public service	160,300	160,300	156,469	(3,831)
Internal service	5,590	5,590	(58)	(5,648)
Student aid, grants and stipends	1,205,812	1,205,812	1,022,918	(182,894)
Auxiliary enterprises	360,219	390,000	304,357	(85,643)
Intercollegiate athletics	157,917	168,000	130,947	(37,053)
Capital outlay	2,306,614	2,306,614	402,301	(1,904,313)
Renewal and replacement	5,000	5,000	5,000	-
Total expenditures	<u>9,456,118</u>	<u>9,567,466</u>	<u>7,252,342</u>	<u>(2,315,124)</u>
Net Transfers	-	-	-	-
Change in fund balance	<u>(63,252)</u>	<u>(130,388)</u>	<u>185,968</u>	<u>316,356</u>
Ending Fund Balance	<u>\$ 4,409,536</u>	<u>\$ (2,582,146)</u>	<u>\$ (2,265,790)</u>	<u>\$ 316,356</u>

State of New Mexico
Mesalands Community College

**BUDGETARY COMPARISONS -
UNRESTRICTED CURRENT FUNDS - REVENUES AND EXPENDITURES**

Year Ended June 30, 2018

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget Over (Under)
Beginning Fund Balance	\$ 4,472,788	\$ (2,451,758)	\$ (2,451,758)	\$ -
Unrestricted Revenues:				
Tuition and miscellaneous fees	699,185	669,185	822,609	153,424
Federal government appropriations	-	-	-	-
State government appropriations	4,114,800	4,144,800	4,114,800	(30,000)
Local government appropriations	270,000	270,000	278,939	8,939
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	463,232	463,232	304,171	(159,061)
Other sources	73,281	73,281	92,878	19,597
Capital outlay	2,314,726	2,314,726	449,908	(1,864,818)
Renewal and replacement	-	-	-	-
Total unrestricted revenues	<u>7,935,224</u>	<u>7,935,224</u>	<u>6,063,305</u>	<u>(1,871,919)</u>
Unrestricted Expenditures:				
Instruction and general	5,007,336	5,034,608	4,973,542	(61,066)
Student social and cultural	-	-	-	-
Research	-	-	-	-
Public service	26,300	26,300	26,168	(132)
Internal service	5,590	5,590	(58)	(5,648)
Student aid	129,500	129,500	52,172	(77,328)
Auxiliary enterprises	360,219	390,000	304,357	(85,643)
Intercollegiate athletics	157,917	168,000	130,947	(37,053)
Independent operations	-	-	-	-
Capital outlay	2,306,614	2,306,614	402,301	(1,904,313)
Renewal and replacements	5,000	5,000	5,000	-
Total unrestricted expenditures	<u>7,998,476</u>	<u>8,065,612</u>	<u>5,894,429</u>	<u>(2,171,183)</u>
Net Transfers	-	-	-	-
Change in fund balance	<u>(63,252)</u>	<u>(130,388)</u>	<u>168,876</u>	<u>299,264</u>
Ending Fund Balance	<u>\$ 4,409,536</u>	<u>\$ (2,582,146)</u>	<u>\$ (2,282,882)</u>	<u>\$ 299,264</u>

State of New Mexico
Mesalands Community College

**BUDGETARY COMPARISONS -
RESTRICTED CURRENT FUNDS - REVENUES AND EXPENDITURES**

Year Ended June 30, 2018

	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	839,138	839,138	871,443	32,305
State government appropriations	137,174	137,174	93,632	(43,542)
Local government appropriations	-	-	4,268	4,268
Federal government grants and contracts	162,361	206,573	177,705	(28,868)
State government grants and contracts	218,969	218,969	205,195	(13,774)
Local government grants and contracts	-	-	-	-
Private gifts	100,000	100,000	22,762	(77,238)
Endowments, land, and Perm Fund	-	-	-	-
Sales and services	-	-	-	-
Other sources	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacement	-	-	-	-
Total restricted revenues	<u>1,457,642</u>	<u>1,501,854</u>	<u>1,375,005</u>	<u>(126,849)</u>
Restricted Expenditures:				
Instruction and general	247,330	291,542	256,866	(34,676)
Student social and cultural	-	-	-	-
Research	-	-	-	-
Public service	134,000	134,000	130,301	(3,699)
Internal service	-	-	-	-
Student aid	1,076,312	1,076,312	970,746	(105,566)
Auxiliary enterprises	-	-	-	-
Intercollegiate athletics	-	-	-	-
Independent operations	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Total restricted expenditures	<u>1,457,642</u>	<u>1,501,854</u>	<u>1,357,913</u>	<u>(143,941)</u>
Net Transfers	-	-	-	-
Change in fund balance	<u>-</u>	<u>-</u>	<u>17,092</u>	<u>17,092</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,092</u>	<u>\$ 17,092</u>

State of New Mexico
Mesalands Community College

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

Year Ended June 30, 2018

	Original Budget	Final Revised Budget	Actual Budgetary Basis	Variance with Final Budget Over (Under)
Beginning Fund Balance	\$ 2,691,643	\$ (4,372,706)	\$ (4,372,706)	\$ -
Unrestricted Revenues:				
Tuition and miscellaneous fees	699,185	699,185	822,609	123,424
Federal government appropriations	-	-	-	-
State government appropriations	3,864,200	3,864,200	3,864,200	-
Local government appropriations	270,000	270,000	278,939	8,939
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	73,281	73,281	92,878	19,597
Total unrestricted revenues	<u>4,906,666</u>	<u>4,906,666</u>	<u>5,058,626</u>	<u>151,960</u>
Unrestricted Expenditures:				
Instruction	1,996,562	1,996,562	1,976,581	(19,981)
Academic support	585,492	585,492	583,882	(1,610)
Student services	710,226	710,226	689,625	(20,601)
Institutional support	1,150,328	1,150,328	1,131,599	(18,729)
Operation and maintenance of plant	564,728	592,000	591,828	(172)
Total unrestricted expenditures	<u>5,007,336</u>	<u>5,034,608</u>	<u>4,973,515</u>	<u>(61,093)</u>
Net Transfers	102,800	102,800	102,800	-
Change in fund balance	<u>2,130</u>	<u>(25,142)</u>	<u>187,911</u>	<u>213,053</u>
Ending Fund Balance	<u>\$ 2,488,173</u>	<u>\$ (4,603,448)</u>	<u>\$ (4,390,395)</u>	<u>\$ 213,053</u>

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, 2018

Budgetary Basis revenues	\$ 7,438,310
Additions to endowments	36,738
Other	<u>(8,903)</u>
 Total GAAP basis revenues	 <u><u>\$ 7,466,145</u></u>
 Budgetary basis expenditures	 \$ 7,252,342
Capital expenditures	(25,611)
Depreciation expense	781,268
Bad debt expense	27,791
Pension expense	1,572,166
Other postemployment benefits expense	129,311
Other	<u>(469,512)</u>
 Total GAAP basis expenditures	 <u><u>\$ 9,267,755</u></u>

State of New Mexico
Mesalands Community College

SCHEDULE OF PLEDGED COLLATERAL

June 30, 2018

	Total Deposits	FDIC or NCUA Insurance	Collateral Required	Collateral Pledged	Security Deficit
1st National Bank of New Mexico	\$ 1,996,413	\$ (250,000)	\$ 873,207	\$ (2,342,901)	\$ -
Wells Fargo	\$ 1,041,789	\$ (250,000)	\$ 395,894	\$ (474,340)	\$ -
Everyone's Federal Credit Union	\$ 43,615	\$ (43,615)	\$ -	\$ -	\$ -

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

1st National Bank of New Mexico:

Collateral	CUSIP#	Maturity		Held at
Letter of Credit # 3577000271	3577000271	3/12/2019	\$ 400,000	Federal Home Loan Bank of Dallas
Letter of Credit # 3577000295	3577000295	3/12/2019	800,000	8500 Freeport Parkway South
FHLMC Pool #G18575	3128MMT94	11/1/2030	629,028	Suite 100
FNMA Pool #MA1983	31418BFZ4	8/1/2034	513,873	Irving, Texas 75063-2547
			<u>\$ 2,342,901</u>	

Wells Fargo

Collateral	CUSIP#	Maturity		Held at
FMAC FGPC 4.0% 11/01/24	3128MCJ55	11/1/2024	\$ 16,672	BNY Mellon
FNMA FNMS 3.5% 01/01/42	3138E6N44	1/1/2042	334,623	One Wall Street, Fourth Floor
FNMA NFMS 2.5% 04/01/31	3140EY2Y6	4/1/2031	122,317	New York, NY 10286
FNMA FNMS 2.5% 05/01/31	3140F5MD2	5/1/2031	728	
			<u>\$ 474,340</u>	

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, 2018

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	
<u>General Obligation Revenue Bond</u>														
General Obligation 14-1300	Roof & Critical Infrastructure Improvements	Ch 65 Sec 10/C/2/e	2014	2015	6/30/2018	\$ 650,000	\$ 650,000	\$ -	\$ -	\$ 570,062	\$ 79,361	\$ -	\$ 577	\$ -
General Obligation A5122	Campus Paving, Landscape & Curbing Improvements	Ch 82 Sec 10/C/2	2017	2017	6/30/2021	2,000,000	2,000,000	-	2,000,000	-	-	-	2,000,000	
Total General Obligation Revenue Bonds						<u>\$ 2,650,000</u>	<u>\$ 2,650,000</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ 570,062</u>	<u>\$ 79,361</u>	<u>\$ -</u>	<u>\$ 577</u>	<u>\$ 2,000,000</u>
<u>Severance Tax Bond Proceeds</u>														
Severance Tax 15-0963	Building D Roof & Infrastructure Improvements	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						<u>\$ 1,405,000</u>	<u>\$ 1,405,000</u>	<u>\$ -</u>	<u>\$ 1,405,000</u>	<u>\$1,082,059</u>	<u>\$ 322,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Capital Appropriations						<u>\$ 4,055,000</u>	<u>\$ 4,055,000</u>	<u>\$ -</u>	<u>\$ 3,405,000</u>	<u>\$1,652,121</u>	<u>\$ 402,302</u>	<u>\$ -</u>	<u>\$ 577</u>	<u>\$ 2,000,000</u>

State of New Mexico
Mesalands Community College

**COMBINING SCHEDULE OF CHANGES IN ACCOUNT BALANCES –
AGENCY FUND**

For the Year Ended June 30, 2018

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2018</u>
Auto tech club	\$ 1,528	\$ -	\$ -	\$ 1,528
Astronomy club	196	-	-	196
Gamers club	958	-	-	958
Chi Alpha	446	-	-	446
Diesel club	871	-	-	871
Skills USA club	347	221	-	568
Hot metal club	3,368	2,360	800	4,928
Life savers club	450	-	-	450
Livestock judging	414	1,000	-	1,414
Natural sciences club	216	-	-	216
Native American club	908	-	-	908
Peer mentoring	389	-	-	389
Phi Theta Kappa	1,790	355	103	2,042
Robotics club	350	-	210	140
Rodeo club	3,840	180	719	3,301
Farrier SHOE club	11,674	3,926	-	15,600
SIFE	1,269	-	-	1,269
Hispanic heritage club	1,203	50	-	1,253
Student government	520	-	-	520
Truck driving club	395	-	-	395
M.E.S.A. club	293	-	-	293
NAWRTC club	69	465	-	534
Employee office fund	4,877	1,722	1,307	5,292
GED club	104	-	-	104
	<u>104</u>	<u>-</u>	<u>-</u>	<u>104</u>
Total	<u>\$ 36,475</u>	<u>\$ 10,279</u>	<u>\$ 3,139</u>	<u>\$ 43,615</u>

State of New Mexico
Mesalands Community College

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

<u>Federal Grantor Program Title</u>	<u>Funding Agency Identification Number/Contract ID</u>	<u>Catalog of Federal Domestic Assistance (CFDA) Number</u>	<u>Fiscal Year Subrecipient Expenditures</u>	<u>Fiscal Year Expenditures</u>
U.S Department of Education				
Direct Programs:				
Student Financial Assistance Cluster				
Pell Grant		84.063	\$ -	\$ 734,098
Direct Unsubsidized Loan		84.268	-	53,179
College Work Study		84.033	-	24,732
Supplemental Educational Opportunity Grant (SEOG)		84.007	-	19,747
Total Student Financial Assistance Cluster				<u>831,756</u>
Title V Endowments		84.031	-	<u>941,013</u>
Total U.S Department of Education Direct				1,772,769
Indirect Programs				
Passed through NM Higher Education Department				
Adult Education - Basic Grants to States	V002A140032	84.002	-	<u>48,402</u>
Total U.S Department of Education Indirect				<u>48,402</u>
Total U.S Department of Education				1,821,171
Small Business Administration				
Small Business Development Centers	7620003212	59.037	-	<u>21,906</u>
Total Small Business Administration				21,906
U.S. Department of Labor				
Passed through NM Skill-Up Network Consortium				
Trade Adjustment Assistance Community College and Career Training Grants	TC264861460A35	17.282	-	<u>107,397</u>
Total U.S. Department of Labor				<u>107,397</u>
Total Schedule of Expenditures of Federal Awards				<u>\$ 1,950,474</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

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, 2018. 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.

**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. Wayne Johnson
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, 2018 and have issued our report thereon dated October 30, 2018.

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 a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2018-001.

Compliance and Other Matters

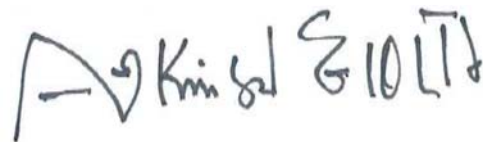
As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2018-002 and 2018-003.

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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial "A" and a checkmark-like flourish.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 30, 2018

**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. Wayne Johnson
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, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-004 (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 finding 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

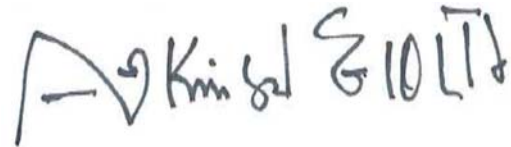
Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types 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.

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.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd." with a stylized initial "A" and "C" on either side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 30, 2018

State of New Mexico
Mesalands Community College

SUMMARY OF AUDIT FINDINGS

Year Ended June 30, 2018

Prior Year Findings

Status

Findings – Financial Statement

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

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

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

Findings – Federal Award Findings and Questioned Costs

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

Current Year Findings

Findings – Financial Statement

2018-001 Pension Census Data Transmission (Significant Deficiency)

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2018-002 Certified Procurement Officer (Other Noncompliance)
2018-003 Investment Policy (Other Noncompliance)

Findings – Federal Award Findings and Questioned Costs

2018-004 (2017-006) Verification Testing (Other Noncompliance)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

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? ___ Yes X None reported

Type of auditors' report issued on compliance for major programs: Unmodified

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

Identification of Major Programs

CFDA Number	Name of Federal Program or 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2018

B. FINANCIAL STATEMENT FINDINGS

2018-001 PENSION CENSUS DATA TRANSMISSION (SIGNIFICANT DEFICIENCY)

CONDITION

During our testing of census data submitted to the College's pension and OPEB plans, we noted that 5 of 43 employees' census data submitted to the plans by the College did not agree with the census data per employee personnel records for date of hire.

CRITERIA

The census data submitted by the College as a participating employer in the NM Educational Retirement and NM Retiree Healthcare plans is used by the Plans' actuaries in computing the Plans' net pension and OPEB liability. Errors in the data submitted to the plan can affect the results of the actuary's calculations. Additionally, these errors may cause difficulty for employees attempting to claim their benefits in the future.

CAUSE

Unknown.

EFFECT

The effect of errors on the amount of net pension or OPEB liability is not able to be quantified.

RECOMMENDATION

We recommend that the College perform a review of the census data submitted to ERB and RHCA and correct any errors.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The College will complete a review of the census data submitted to ERB and RHCA and correct all errors by June 30, 2019.

POINT OF CONTACT

Human Resources Specialist

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2018

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

2018-002 CERTIFIED PROCUREMENT OFFICER (OTHER NONCOMPLIANCE)

CONDITION

During a review of work performed over compliance with the NM State Procurement Code, it was noted that there was no Certified Procurement Officer registered for the College as of June 30, 2018.

CRITERIA

The New Mexico Procurement Code (13-1-95.2 NMSA 1978) states that the entity's designated CPO must have an active registration on file with the General Services Division.

CAUSE

The previous Certified Procurement Officer's certification expired in January 2018 and was not renewed.

EFFECT

Not in compliance with state statute.

RECOMMENDATION

We recommend that the designated CPO re-register for the license as soon as possible in order to be in compliance with the state statute for the current fiscal year.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The designated CPO will get re-certified and re-registered with the State Purchasing Division by June 30, 2019.

POINT OF CONTACT

Vice President of Administrative Affairs

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2018

B. FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE) – CONTINUED

2018-003 INVESTMENT POLICY OUT OF DATE (OTHER NONCOMPLIANCE)

CONDITION

Investment policy has not been formally amended by the Board since November 2016 and is out of compliance with state law that requires adoption of 21-1-38 NMSA 1978, which are the New Mexico Uniform Prudent Management of Institutional Funds Act (NM UPMIFA) standards in accordance with NMSA 46-9A-4 NMSA 1978.

CRITERIA

Chapter 46-9A NMSA 1978 requires the formal adoption of the Uniform Prudent Management of Institutional Funds Act by policy when managing fiduciary or trust funds. The purpose of adopting the NM UPMIFA standards, should be documented and monitored to ensure that funds are being used appropriately under current law.

CAUSE

The last investment policy revision by the board adopted the New Mexico Uniform Prudent Investor Act (NM UPIA), 45-7-601 et seq. NMSA 1978 however NM UPMIFA was not adopted at that time.

EFFECT

Proper application of NM UPMIFA requirements for endowments may not be understood by management without proper guidance in the College's Investment Policy and therefore application of endowment accounting may not be in accordance with state law.

RECOMMENDATION

We recommend that the Board of Trustees revise the College's investment policy to include the NM UPMIFA, which implicitly calls upon the governing board to decide how they will interpret the requirements to preserve endowment funds.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Board of Trustees will update the investment policy to include adoption of NM UPMIFA standards to meet state law by June 30, 2019.

POINT OF CONTACT

Vice President of Administrative Affairs

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2018

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

2018-004 (2017-006) VERIFICATION AND VERIFICATION POLICY (OTHER NONCOMPLIANCE)
Program: Student Financial Assistance Cluster
CFDA No.: 84.063, 84.033, 84.007 and 84.268
Period: 7/1/2017 – 6/30/2018

CONDITION

During our testing it was noted that the College's written Financial Aid Verification Policy did not include the required student notifications. The College corrected the other parts of this prior year finding but was not able to amend the policy prior to year-end.

CRITERIA

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

CAUSE

There is no known cause for noncompliance related to the verification policy.

EFFECT

Incomplete 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 ensure that all required provisions of 34 CFR Sections 668.51 through 668.61 are included in the Verification Policy.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The College will ensure that the verification policy will be updated to include all required provisions of 34 CFR Sections 668.51 through 668.61 by November 30, 2018.

POINT OF CONTACT

Director of Financial Aid

State of New Mexico
Mesalands Community College

EXIT CONFERENCE

June 30, 2018

An exit conference was held on October 29, 2018, with the following in attendance:

For Mesalands Community College:

James P. Streetman	Chair, Board of Trustees
Liz Estrada	Secretary, Board of Trustees
Dr. John Groesbeck	President
Amanda Hammer	VP of Administrative Affairs

For Atkinson & Co., Ltd.

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

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

ATKINSON & CO. LTD
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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