STATE OF NEW MEXICO
SANTA FE COMMUNITY COLLEGE
FINANCIAL STATEMENTS
JUNE 30, 2012

**Table of Contents**

**June 30, 2012**

**June 30, 2012**

## Board of Directors

| Name | Title | Term Expiration |
|---|---|---|
| Linda S. Siegle | Chair | March 31, 2015 |
| Dr. Andrea B. Bermudez | Vice Chair | March 31, 2017 |
| Chris Abeyta | Secretary | March 31, 2015 |
| Carole A. Britto | Member | March 31, 2013 |
| Bruce R. Besser | Member | March 31, 2013 |
| Jason DeLeau | Student Ex-Officio Member | April 2012 |

## Administrative Officials

| | |
|---|---|
| Sheila Ortego, Ph.D. | President |
| Meridee Walters | Vice-President for Finance and Administration |
| Betsye Ackerman | Controller |

ABEYTA • WEINER • CHERNE P.C.
Certified Public Accountants

**Independent Auditors' Report**

To the Board of Directors of
Santa Fe Community College
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities, of the State of New Mexico Santa Fe Community College (the College), and the discretely presented component unit (GROW Foundation) as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons presented as supplementary information for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 14, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

1701 Old Pecos Trail, Suite B | Santa Fe, NM 87505 | Phone 505.424.7200 | Fax 505.424.8500
**Members American Institute of Certified Public Accountants**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "Supplementary Information Section" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abeyta, Weiner & Cherne, P.C.

Santa Fe, New Mexico
December 14, 2012

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Overview of Financial Statements

For financial reporting purposes, Santa Fe Community College (the College) is considered a special-purpose government engaged only in business-type activities. The College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The College has considered potential component units and has chosen to include GROW Santa Fe Community College Foundation (GROW) as a component unit. These financial statements are based upon Governmental Accounting Standards Board GASB Statement 35. This MD&A focuses on the College and not on GROW. This report consists of a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

### Condensed Financial Information

| | 2012 | As Previously Reported 2011 | As Previously Reported 2010 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 29,084,797 | $ 42,530,782 | $ 39,801,371 |
| Capital and other assets | 90,556,873 | 78,718,848 | 68,367,405 |
| **Total Assets** | $ 119,641,670 | $ 121,249,630 | $ 108,168,776 |
| **Liabilities** | | | |
| Current liabilities | $ 13,167,482 | $ 6,686,844 | $ 14,947,627 |
| Noncurrent liabilities | 25,281,108 | 37,386,727 | 17,124,514 |
| **Total Liabilities** | 38,448,590 | 44,073,571 | 32,072,141 |
| **Net Assets** | | | |
| Invested in capital assets, net of related debts | 58,502,544 | 42,220,244 | 43,803,246 |
| Restricted | 12,377,337 | 26,516,899 | 22,250,396 |
| Unrestricted | 10,313,199 | 8,438,916 | 10,042,993 |
| **Total Net Assets** | $ 81,193,080 | $ 77,176,059 | $ 76,096,635 |

• Assets exceeded liabilities by $81,193,080 at the close of the fiscal year. Of this amount, $10,313,199 is unrestricted.

• Cash and cash equivalents decreased from $13,014,511 at the beginning of the year to $12,114,595 at the end of the fiscal year. Investments also had a significant decrease from $23,391,799 to $9,544,890.

• Net assets as shown in the previous schedule increased to $81,193,080 in comparison to $77,176,059 at the end of fiscal year 2011. This change included a prior period adjustment of $2,202,084, of which substantially all related to errors in the calculation of depreciation. Management is unable to determine which years the adjustments relate to. See Note 18 for details.

## Revenues, Expenses and Changes in Net Assets

Below is a schedule with a three year comparison of revenue, expenses and changes in net assets. The increase in net assets for fiscal year 2012 was $1,814,937 compared to an increase of $1,079,424 for fiscal year 2011.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Operating Revenues | $ 14,952,965 | $ 15,521,241 | $ 14,122,713 |
| Operating Expenses | (57,330,447) | (55,682,825) | (50,674,303) |
| **Operating Loss** | (42,377,482) | (40,161,584) | (36,551,590) |
| Non-Operating Revenues (Expenses) | 44,192,419 | 41,241,008 | 46,510,008 |
| **Change in Net Assets** | $ 1,814,937 | $ 1,079,424 | $ 9,958,418 |

## Analysis of Financial Position and Results of Operations

Santa Fe Community College continues to be in sound financial position. Adequate funds exist to fund the College's ongoing operations, repay debt and meet identified capital building improvement needs. Enrollment growth is expected to stabilize or decrease slightly. During the next fiscal year, the College will be working to reallocate existing funds to increase full-time faculty. Increases in expenses will be planned depending on the results of the FY13 funding formula changes.

The following schedule summarizes the College's operating revenues of $14,952,965 for fiscal year ending June 30, 2012 in comparison to $15,521,241 in the prior year. Government grants and contracts increased from $6,250,276 in fiscal year 2011 to $6,776,591 in fiscal year 2012. Tuition and fees, net is $1,248,692 or 26% less than the prior year. This is largely due to a change in estimate of the scholarship allowance. Gross tuition and fees, increased by $353,289 or 5.64%. Sales and services for educational departments decrease by $399,463. The College discontinued its Dental Clinic. The change in revenues resulting from this discontinued operation was $203,419. Operating expenses of $57,330,447 were higher than the expenses in the prior year in the amount of $1,647,622 or 2.96%. Instruction and general expenditures increased by $769,217 or 2.35%.

## Operating Revenues

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Tuition and fees, net | $ 3,627,481 | $ 4,876,173 | $ 4,150,500 |
| Government grants and contracts | 6,776,591 | 6,250,276 | 5,909,628 |
| Non-government grants and contracts | 1,007,130 | 674,395 | 523,956 |
| Sales and services of educational activities | 828,029 | 1,227,492 | 1,268,418 |
| Auxiliary enterprises | 2,713,734 | 2,492,905 | 2,270,211 |
| **Operating Revenues** | $ 14,952,965 | $ 15,521,241 | $ 14,122,713 |

## Operating Expenses

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Instruction | $ 17,215,223 | $ 18,173,629 | $ 14,924,903 |
| Academic support | 4,019,937 | 3,964,233 | 4,569,549 |
| Student services | 3,282,687 | 2,526,810 | 3,005,261 |
| Institutional support | 5,959,902 | 5,035,244 | 5,275,671 |
| Operation and maintenance of plant | 3,019,983 | 3,028,599 | 2,728,968 |
| Student activities | 108,650 | 94,344 | 143,235 |
| Student aid | 6,219,074 | 6,398,579 | 5,221,524 |
| Public services | 7,865,839 | 7,411,914 | 8,404,283 |
| Auxiliary enterprises | 2,753,916 | 2,196,876 | 2,099,224 |
| Building renewal and replacements | 807,479 | 127,024 | 633,318 |
| Capital outlay | 2,339,221 | 3,574,655 | 84,369 |
| Depreciation and amortization | 3,476,468 | 2,987,433 | 3,334,720 |
| Other operating | 251,648 | 163,485 | 227,984 |
| Internal services | 10,420 | - | 21,294 |
| **Operating Expenses** | $ 57,330,447 | $ 55,682,825 | $ 50,674,303 |

## Non-Operating Revenues and Expenses

The following schedule summarizes the College's nonoperating revenues and expenses of $44,192,419 for fiscal year ended June 30, 2012; showing an increase in nonoperating revenue and expenses of $2,951,411 from the previous year. Although state appropriations declined in the amount of $885,048, local tax revenue increased by $2,742,613, which was primarily due to a change in estimate to include assessed property taxes of which $1,214,663 were not included in prior years, and federal pell grants increased by $1,242,193.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Federal pell grant | $ 7,811,788 | $ 6,569,595 | $ 5,633,756 |
| State appropriations | 12,324,428 | 13,209,476 | 17,142,678 |
| Local appropriations - operating | 17,364,014 | 15,266,308 | 14,559,901 |
| Local appropriations - debt service | 7,139,250 | 6,494,343 | 6,404,776 |
| Investment gain (loss) | (7,401) | 56,023 | 40,267 |
| Interest expense and other related debt | (759,032) | (642,088) | (684,895) |
| Other income | 345,993 | 287,351 | 326,438 |
| Loss on disposal assets | (26,621) | - | - |
| General obligation bonds | - | - | 3,087,087 |
| **Non-Operating Revenues and Expenses** | $ 44,192,419 | $ 41,241,008 | $ 46,510,008 |

## Analysis of Variations Between Original and Final Budget and Resulting Actual

During the fiscal year, budget adjustments were submitted to the Higher Education Department and approved to recognize anticipated changes in revenue and expenditures. The actual revenue exceeded the final approved budget for unrestricted instruction and general and unrestricted non-instruction and general. Actual unrestricted instruction and general expenses were less than budgeted. Capital expenditures exceeded projection when projects moved faster than originally expected. The budget variance in the Plant Fund was one of timing as capital projects expenditures were sufficiently covered.

## Significant Capital Asset and Long-Term Debt Activity

Bond proceeds are being used to finance several projects that are currently underway or were completed in fiscal year 2010-11, including the construction of the Health and Sciences Building, the construction of the Trades and Advanced Technology Building, a remodel of the current kitchen and food services area, the expansion of Culinary Arts instructional space, and the remodel of two science labs.

On August 3, 2010, the Santa Fe County voters approved another $34 million general obligation bond issue for additional main campus development and a higher education learning center or downtown campus. The original bond issue of $20 million occurred on October 28, 2010 with another issue anticipated during fiscal 2012-13 in the amount of $15,000,000.

## Currently Known Facts, Decisions or Conditions Impacting Financial Conditions

Over the last few years, the State of New Mexico has been working to move the funding formula from a production based system to a production-performance based system. For example, where the formula in prior years reimburses credit hour production on a pre-determined census date, the current formula reimburses credit hours based on completion.

Generally, enrollment trends for community colleges are impacted by economic conditions. They experience significant increases in enrollments during economic recessions. Adversely, during times of economic growth, enrollments level off and decline. In order to effectively address these cyclical issues, the College deploys adjunct faculty and temporary help. This allows direct costs to move with enrollment changes.

## Component Unit

GROW Santa Fe Community College Foundation is included as a component unit on the financial statement. GROW was established October 2004 to encourage, solicit, receive, and administer gifts and bequests of real and personal property and funds for scientific, educational, public service, and charitable purposes for the advancement and benefit of Santa Fe Community College and its objectives.

A copy of the separately issued audited financial statements for GROW can be obtained by writing to the Executive Director at GROW Santa Fe Community College Foundation, 6401 Richards Ave., Santa Fe, NM 87508.

## FINANCIAL STATEMENTS

**June 30, 2012**

| | Primary Institution | Component Unit |
|---|---|---|
| **Assets:** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 7,057,482 | $ 1,098,138 |
| Cash and cash equivalents - restricted | 5,057,113 | - |
| Investments | 9,544,890 | 4,713,062 |
| Accounts receivable students, net | 1,322,304 | - |
| Grants and contracts receivable | 2,759,177 | - |
| Mill levy receivable | 1,661,012 | - |
| Other receivables, net | 268,323 | 5,000 |
| Due from component unit | 612,079 | - |
| Inventories | 467,085 | - |
| Prepaid expenses | 335,332 | - |
| **Total Current Assets** | 29,084,797 | 5,816,200 |
| **Non-Current Assets:** | | |
| Assets held in escrow | 127,543 | - |
| Mill levy receivable | 1,214,664 | - |
| Capital assets, net | 89,214,666 | 470,311 |
| **Total Non-Current Assets** | 90,556,873 | 470,311 |
| **Total Assets** | $ 119,641,670 | $ 6,286,511 |
| **Liabilities:** | | |
| **Current Liabilities:** | | |
| Accounts payable | $ 2,823,502 | $ - |
| Accrued liabilities | 991,318 | - |
| Accrued interest payable | 265,019 | - |
| Deferred revenue | 2,328,853 | - |
| Due to primary institution | - | 612,079 |
| Accrued compensated absences - current portion | 846,761 | - |
| Bonds payable - current portion | 5,627,122 | - |
| Other liabilities | 284,907 | - |
| **Total Current Liabilities** | 13,167,482 | 612,079 |
| **Non-Current Liabilities:** | | |
| Accrued compensated absences | 196,108 | - |
| Bonds payable | 25,085,000 | - |
| **Total Non-Current Liabilities** | 25,281,108 | - |
| **Total Liabilities** | 38,448,590 | 612,079 |
| **Net Assets:** | | |
| Invested in capital assets, net of related debt | 58,502,544 | - |
| Restricted | | |
| Nonexpendable | | |
| Scholarship | - | 2,932,829 |
| Expendable | | |
| Scholarship and programs | - | 1,887,542 |
| Debt service | 6,474,118 | - |
| Capital projects | 5,680,173 | - |
| Other | 223,046 | - |
| Unrestricted | 10,313,199 | 854,061 |
| **Total Net Assets** | $ 81,193,080 | $ 5,674,432 |

**See Notes to Financial Statements**

 

**For the Year Ended June 30, 2012**

| | Primary Institution | Component Unit |
|---|---|---|
| **Operating Revenues** | | |
| Tuition and fees (net of scholarship allowances of $2,991,016) | $ 3,627,481 | $ - |
| Government grants and contracts | 6,776,591 | - |
| Non-government grants and contracts | 1,007,130 | - |
| Sales and services of educational activities | 828,029 | - |
| Gifts | - | 475,186 |
| Auxiliary enterprises | 2,713,734 | - |
| **Total Operating Revenues** | 14,952,965 | 475,186 |
| **Operating Expenses** | | |
| Instruction | 17,215,223 | - |
| Academic support | 4,019,937 | - |
| Student services | 3,282,687 | ` |
| Institutional support | 5,959,902 | 262,305 |
| Operation and maintenance of plant | 3,019,983 | - |
| Student activities | 108,650 | - |
| Student aid | 6,219,074 | 737,258 |
| Public services | 7,865,839 | - |
| Auxiliary enterprises | 2,753,916 | - |
| Building renewal and replacements | 807,479 | - |
| Capital outlay | 2,339,221 | - |
| Depreciation | 3,476,468 | - |
| Other operating | 251,648 | - |
| Internal services | 10,420 | - |
| **Total Operating Expenses** | 57,330,447 | 999,563 |
| **Operating Loss** | (42,377,482) | (524,377) |
| **Non-Operating Revenues (Expenses)** | | |
| Federal pell grant | 7,811,788 | - |
| State appropriations | 12,324,428 | - |
| Local appropriations - operating | 17,364,014 | - |
| Local appropriations - debt service | 7,139,250 | - |
| Investment loss, net | (7,401) | (8,345) |
| Interest expense and other related debt | (759,032) | - |
| Other income | 345,993 | - |
| Loss on disposal of assets | (26,621) | - |
| **Total Non-Operating Revenues (Expenses)** | 44,192,419 | (8,345) |
| **Income (Loss) Before Contributions to Permanent Endowments** | 1,814,937 | (532,722) |
| **Contributions to Permanent Endowments** | | |
| Gifts | - | 113,926 |
| **Change in Net Assets** | 1,814,937 | (418,796) |
| Net Assets, Beginning of Year | 77,176,059 | 6,093,228 |
| Restatement, Note 18 | 2,202,084 | - |
| **Net Assets, Beginning of Year as Restated** | 79,378,143 | 6,093,228 |
| **Net Assets, End of Year** | $ 81,193,080 | $ 5,674,432 |

**See Notes to Financial Statements**

**For the Year Ended June 30, 2012**

| | Primary Institution |
|---|---|
| **Cash Flows From Operating Activities:** | |
| Tuition and fees | $ 3,356,011 |
| Grants and contracts | 8,677,673 |
| Sales and services of educational activities | 828,029 |
| Auxiliary enterprise charges | 2,713,734 |
| Payments to employees | (23,375,906) |
| Payments for benefits | (4,243,179) |
| Payments to suppliers | (26,670,904) |
| **Net Cash Flows From Operating Activities** | (38,714,542) |
| | |
| **Cash Flows From Non-Capital Financing Activities:** | |
| Federal pell grant | 7,811,788 |
| State appropriations | 12,324,428 |
| District mill levies | 21,778,081 |
| Federal loan receipts | 8,194,896 |
| Federal loan disbursements | (8,194,896) |
| Other receipts | 345,993 |
| **Net Cash Flows From Non-Capital Financing Activities** | 42,260,290 |
| | |
| **Cash Flows From Capital Financing Activities:** | |
| Purchases of capital assets | (11,647,423) |
| Principal payment of bonds | (5,658,939) |
| Interest payments on bonds | (978,810) |
| **Net Cash Flows From Capital Financing Activities** | (18,285,172) |
| | |
| **Cash Flows From Investing Activities:** | |
| Interest on investment | 39,211 |
| Proceeds from sale of investments | 13,800,297 |
| **Net Cash Flows From Investing Activities** | 13,839,508 |
| | |
| **Net Decrease in Cash and Cash Equivalents** | (899,916) |
| | |
| **Cash and Cash Equivalents, Beginning of Year** | 13,014,511 |
| | |
| **Cash and Cash Equivalents, End of Year** | $ 12,114,595 |
| | |
| **Net Cash Used by Operating Activities:** | |
| Operating loss | $ (42,377,482) |
| | |
| **Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities** | |
| Depreciation expense | 3,476,468 |
| | |
| **Changes in Assets and Liabilities:** | |
| Receivables, net | 494,895 |
| Inventories | (32,130) |
| Other assets | (253,086) |
| Accounts payable | 83,431 |
| Accrued liabilities | (7,163) |
| Deferred revenue | (19,394) |
| Other liabilities | (107,284) |
| Compensated absences | 27,203 |
| | $ (38,714,542) |

**See Notes to Financial Statements**

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Reporting Entity.* On February 2, 1983, the citizens of the Santa Fe Public School District voted in favor of supporting a two-year Junior College through a local tax levy. The Santa Fe Community College (College, Primary Institute) was created under the "Junior College Act," Sections 21-13-1 through 21-13-25 New Mexico Statutes Annotated, 1978 compilation, as amended. The purpose of the Junior College Act is to provide for the creation of local junior colleges and to extend the privilege of a basic vocational technological or higher education to all persons who are qualified to pursue the courses of study offered.

*Component Unit.* Component units are legally separate organizations for which the primary organization is financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a primary unit. Because of the closeness of their relationships with the primary organization, some component units are blended as though they are part of the primary organization. However, most component units are discretely presented. The College has one blended and one discretely presented component unit. The College does not have any related organizations, joint ventures or jointly governed organizations.

*The following is a blended component unit:*

The Santa Fe Community College Training Center Corporation (Corporation) is organized for the purpose of training and related functions, including for the planning, designing, constructing, equipping, furnishing and operating a mobile film production and transmission capability, a film science construction and training facility and training center, a biomass production, distribution and training center in accordance with the needs of the Santa Fe Community College, and for such other training related purposes as the College directs in the future. The Corporation is operated, supervised, or controlled by the Governing Board of the Santa Fe Community College.

*Following is a discretely presented component unit:*

GROW Santa Fe Community College Foundation (GROW) is formed to encourage, solicit, receive, and administer gifts and bequests of real and personal property and funds for scientific, educational, public service, and charitable purposes for the advancement and benefit of Santa Fe Community College and its objectives and, to that end (a) to take and to hold, either absolutely or in trust for any limitations and conditions imposed by law or the instrument under which received; (b) to sell, lease, convey, and dispose of any such property, to invest and re-invest any proceeds and other funds, and to deal with and expend the principal and income for any purpose herein authorized; (c) to act as trustee; and (d) in general, to exercise any, all, and every power, including trust powers, which a nonprofit corporation organized under the laws of New Mexico for the foregoing purposes can be authorized to exercise. The College provides office space, personnel, utilities, and general operating expenses to GROW. A copy of audited financial statements for GROW can be obtained by writing to GROW Santa Fe Community College Foundation at 6401 Richards Ave., Santa Fe, NM 87508.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Financial Statement Presentation.* The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures.* The financial statement presentation required by these statements provides a comprehensive, entity-wide perspective of the College's assets, liabilities, and net assets, revenues, expenses, and changes in net assets, and cash flows, and replaces the fund-group perspective that was previously required.

The impact of adopting the above standards resulted in adding management's discussion and analysis as required supplementary information; adding a direct method Statement of Cash Flows; classifying net assets as invested in capital assets, net of related debt; restricted and unrestricted; classifying the Statement of Net Assets between current and noncurrent assets and liabilities and classifying revenue and expenses as operating and nonoperating.

*Basis of Accounting.* For financial reporting purposes, the College is considered a special purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College and GROW has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

*Cash and Cash Equivalents.* For purposes of the Statement of Cash Flows, the College considers all highly liquid investment with original maturities of ninety days or less to be cash equivalents. Immediate cash needs are met with resources deposited at the College's bank. Restricted cash and cash equivalents represent amounts that are externally restricted to make debt service payments.

*Investments.* Investments are stated at their market value at date of gift, or at cost, if purchased by the College.

Cash resources not needed to meet immediate needs are invested with the New Mexico State Treasurer's Office short-term investment pool. Amounts invested with the State Treasurer are readily available to the College when needed and are recorded at an amount which approximates fair value. The College considers cash deposited at the State Treasurer's Office to be investments.

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Private Gifts, Revenue and Pledges.* GROW records pledges receivable as assets and revenue if the pledges are evidenced by unconditional promises to give those items in the future. GROW considers an executed charitable gift or endowment agreement or a signed pledge card from a donor an unconditional promise. Non-cash contributions are valued at estimated fair values at date of donation.

*Inventories.* Inventories consist primarily of bookstore inventory, food service inventory and consumable supplies and are stated at the lower of cost (first-in, first-out method) or market.

*Capital Assets.* Capital assets, which include property, plant, equipment, software, and library holdings, are reported at historical cost or at fair value at date of donation, less accumulated depreciation. Renovations to buildings, infrastructure, and land improvements are capitalized when they significantly increase the value or extend the useful life of the structure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized. For equipment and software, the College's capitalization policy includes all items with a unit cost of $5,000 or more, and an estimated useful life of greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the asset, generally 50 years for building, 20 years for infrastructure and land improvements, 5 years for library books and 5 to 20 years for equipment, furnishing and software. The College has no internally developed software. Capital assets received by GROW are immediately transferred to the College for capitalization and depreciation.

*Art Collections.* Both the College and GROW maintain works of art and similar assets that are (a) held for public exhibition, and education in furtherance of public service rather than financial gain, (b) protected, kept unencumbered, cared for, and preserved, and (c) subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections. Accordingly, art collections are capitalized but not depreciated by the College or GROW.

*Deferred Revenue and Expenditures.* Revenue for each academic session is reported within the fiscal year in which the session is predominantly conducted. Revenues for the summer and fall session of 2012 are shown as deferred income as well as certain contracts and grants paid in advance.

*Noncurrent Liabilities.* Noncurrent liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

*Compensated Absences.* Accumulated annual leave is reported as a liability. Annual leave is provided to full and part-time regular employees. Up to thirty days annual leave may be accumulated and carried over after August 31st of each year.

*Classification of Net Assets.* The College's net assets are classified as follows:

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Restricted Net Assets – Expendable.* Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Restricted Net Assets – Nonexpendable.* Nonexpendable restricted net assets consist of endowment funds in which the donors 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, which may either be expended or added to principal.

*Unrestricted Net Assets.* Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, district mill levies, investment income, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for faculty and staff.

*State Appropriations.* Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year. State appropriations are recognized as revenue in the first year for which they are appropriated.

*District Mill Levies.* District mill levies attach as an unsubordinated enforceable lien on property as of January 1 of the assessment year. Current year taxes are levied on November 1 and are due in equal semiannual installments on November 10 and April 10 of the next year. Taxes become delinquent 30 days after the due dates unless the original levy date has been formally extended. The mill levy is collected by the respective County Treasurers and is remitted to the College. The revenue on the mill levy is recognized at the date the mill is levied. Based on historical collections, no allowance for uncollectible accounts has been recorded. Revenue from the operational mill levy is recorded in the period for which the lien is levied. A separate mill levy for the retirement of debt is collected and remitted to the College. Following the symmetrical recognition concept of GASB Statement 33 and 36, the College recorded an estimated receivable of $2,875,766 as of June 30, 2012 based on levied tax information received from the respective county Treasurer's office.

*Deferred Revenue.* Deferred revenue consists primarily of advances from contracts and grants. Revenue is recognized to the extent expenses are incurred.

*Classification of Revenues.* The College has classified its revenues as either operating or nonoperating according to the following criteria:

*Operating Revenues.* Operating revenues include activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) federal, state, and local grants and contracts, and (4) sale of educational services. Contract and grant revenues are recognized when the underlying exchange transaction has occurred – that is that all eligibility requirements have been met.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Non-Operating Revenues.* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues 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, such as state appropriations, mill levies, pell grant and investment income. Gifts and contributions are recognized when all applicable eligibility requirements have been met. Revenue from both the operational and retirement of debt on the General Obligation mill levy is recognized when earned by the county. Investment income is recognized in the period in which it was earned.

When both restricted and unrestricted resources are available for use, generally it is the institution's policy to use the restricted resources first.

*Scholarship Discounts and Allowances.* Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the institution's financial statements.

*Classification of Expenses.* Expenses are classified as operating or nonoperating according to the following criteria:

*Operating Expenses.* Operating expenses include activities that have the characteristics of an exchange transaction, such as (1) employee salaries, benefits, and related expenses; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies and other services; (4) professional fees; and (5) depreciation expenses related to College capital assets. Operating expenses are presented by program functions in the accompanying financial statements.

*Non-Operating Expenses.* Nonoperating expenses include activities that have the characteristics of nonexchange transactions, such as interest on capital asset and related debt and bond expenses that are defined as nonoperating expenses by GASB Statement No. 9 and GASB Statement No. 34.

*Tax Status.* As a state community college, the College's income is exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code to the extent the income is derived from essential governmental functions. GROW is a nonprofit organization described as a public charity under Section 509(a)(3) of the Internal Revenue Code and is exempt from federal and state income taxes under section 501(c)(3). GROW had no material unrelated business income during fiscal year 2012, therefore, no provision for income taxes is included in the financial statements.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Management's Estimates and Assumptions.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

*Reclassification.* Certain prior year amounts have been reclassified in order to be consistent with current year presentation.

## NOTE 2. CASH AND CASH EQUIVALENTS – COLLEGE

The College cash accounts are held in demand checking accounts at various financial institutions. The carrying amounts of the College's operating accounts at June 30, 2012 were $12,848,186. New Mexico statutes require financial institutions to pledge qualifying collateral to the College to cover at least 50% of uninsured deposits. All collateral is held by third parties in safekeeping. The College is at risk to the extent that its funds are uninsured or uncollateralized. At June 30, 2012 these funds were collateralized by government agency securities held in the Financial Institutions name in the amount of $4,835,627.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. As of June 30, 2012, the College had exposure to custodial credit risk of $2,718,886.

| | |
|---|---|
| Insured | $ 5,293,673 |
| Uninsured and collateralized held by College's agent in the College's name | 1,952,962 |
| Uninsured and collateralized held by pledging bank's trust department not in the College's name | 2,550,084 |
| Uninsured and collateralized - debt service funds (New Mexico Finance Authority as Trustee) | 332,581 |
| Uninsured and uncollateralized - all other accounts | 2,718,886 |
| Total bank balance | $ 12,848,186 |

## NOTE 3. CASH AND CASH EQUIVALENTS – COMPONENT UNIT

GROW's cash accounts are held in demand checking accounts at an institution with carrying amounts totaling $1,098,138 at June 30, 2012. These amounts are fully insured by the FDIC.

## NOTE 4. INVESTMENTS – COLLEGE

The College does not have a formal investment policy, however, the College's investment decisions are approved by the College's Governing Board. As of June 30, 2012, with board approval, the College has invested $9,544,890 with the New MexiGROW Local Government Investment Pool (LGIP), which is managed by the State Treasurer. These investments are valued at fair value based on quoted market prices as of the valuation date. The State Treasurer New MexiGROW LGIP is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The LGIP investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the local government investment pool is voluntary.

The State Treasurer's Office invested a portion of the LGIP in the Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was $381.7 million. On September 16, 2008, The Reserve Primary Fund's net asset value fell below $1.00 and holdings in the Fund were frozen. On July 15, 2010, the Reserve announced that it will begin its seventh distribution to Primary Fund shareholders on or about July 16, 2010. The distribution, in the amount of $215 million, represents approximately 67% of the Fund's remaining asset value of $323 million as of the close of business on July 9, 2010. The New Mexico State Treasurer's Office believes that there will not be additional distributions. Effective November 24, 2010, all remaining assets were transferred to a liquidating service agent, Crederian Fund Services LLC. The College recorded a loss of $46,612 as of June 30, 2012.

*Interest Rate Risk.* The State Treasurer manages its exposure for the New MexiGROW Local Government Investment Pool (LGIP) for declines in fair values by limiting the weighted average maturity (WAM) of its investment portfolio for 60 days or less. At June 30, 2012, the WAM-R was 60 days and WAM-F was 83 days.

*Concentration of Credit Risk.* Concentration risk is the risk of loss attributed to the magnitude of the College's investment in a single issuer. The College does not have a formal policy to address concentration of credit risk. The College did not have any investments at June 30, 2012, other than the investments in the State Treasurer's New MexiGrow LGIP.

*Credit Rate Risk.* Under Section 59A-9-6, NMSA 1978, an insurer shall not invest in bonds rated below BAA by Moody's Investment Service, Inc. or BBB by Standard & Poor's, Inc. The following table provides information on Standard & Poor's credit rating associated with the College's investments at June 30, 2012:

| | Rating | Fair value |
|---|---|---|
| New MexiGROW LGIP | AAAm | $ 9,544,890 |

Total investment loss for the year ended June 30, 2012 was ($7,401). This was comprised of $39,211 in interest income and ($46,612) allocated loss.

## NOTE 5. INVESTMENTS – COMPONENT UNIT

The investments policy allows GROW to invest its portfolio in equities, fixed-income, alternative investments, and other investment strategies to maintain sufficient liquidity to meet projected (or budgeted) distribution requirements. GROW's investment in alternative investments at June 30, 2012 consisted of hedge funds.

A summary of investments at June 30, 2012:

| | Fair Value |
|---|---|
| Money Market Mutual Funds | $ 574,772 |
| Corporate Stocks | 549,090 |
| Mutual Funds - Equities | 1,489,343 |
| Mutual Funds - Bonds | 1,539,281 |
| Hedge Funds | 560,576 |
| | $ 4,713,062 |

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, GROW will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. GROW's exposure to custodial credit risk at June 30, 2012 is as follows:

| Investment Type | Custodian | Fair Value |
|---|---|---|
| Money Market Mutual Funds | Fidelity Investments | $ 574,772 |
| Mutual Funds - Equities | Fidelity Investments | 1,489,343 |
| Corporate Stocks | Pershing Investments | 549,090 |
| Mutual Funds - Bonds | Fidelity Investments | 1,539,281 |
| | | 4,152,486 |
| Hedge Funds | Citi Hedge Fund Services | 527,392 |
| Hedge Funds | Caledonian Fund Services | 33,184 |
| | | 560,576 |
| | | $ 4,713,062 |

*Concentration of Credit Risk – Investments.* Concentration risk is the risk of loss attributed to the magnitude of GROW's investment in a single issuer. Investments in any one issuer that represents 5% or more of total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued and explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There were no investments in a single issuer that represents 5% or more of total investments at June 30, 2012.

Both Fidelity and Pershing Investments are members of Securities Investor Protection (SIPC). As a result, securities are protected up to $500,000. In addition to the SIPC protection, both Fidelity and Pershing Investments provide excess coverage from Lloyd's of London in conjunction with other insurers. Total aggregate excess of SIPC coverage is $1 billion each, but there is a per account limit of $1.9 million for cash awaiting investment.

## NOTE 5. INVESTMENTS – COMPONENT UNIT (Continued)

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GROW does not have a policy on investment credit risk. At June 30, 2012, GROW's bond and money market mutual funds are subject to credit risk, however, they are unrated.

*Interest Rate Risk - Investments.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GROW does not have a policy to limit its exposure to interest rate risk. At June 30, 2012, GROW's bond mutual funds are subject to interest rate risk, however, they are all unrated.

For the year ended June 30, 2012, components of investment return were as follows:

| | | |
|---|---|---|
| Interest and dividend income | $ | 83,122 |
| Net realized gains | | 162,845 |
| Net unrealized losses | | (214,845) |
| Investment management fees and taxes | | (39,467) |
| | $ | (8,345) |

## NOTE 6. RECEIVABLES

Receivables are shown net of allowance for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2012, receivables consisted of the following:

| | | |
|---|---|---|
| Accounts receivable students | $ | 2,123,929 |
| Grants and contracts | | 2,759,177 |
| Mill levy | | 2,875,676 |
| Other | | 268,323 |
| Due from component unit | | 612,079 |
| Allowance for doubtful accounts | | (801,625) |
| | $ | 7,837,559 |

## NOTE 7. CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2012:

| | Restated June 30, 2011 | Additions | Retirements | Transfers | June 30, 2012 |
|---|---|---|---|---|---|
| College capital assets not being depreciated: | | | | | |
| Land | $ 4,350,000 | $ 1,518,799 | $ - | $ - | $ 5,868,799 |
| Artwork | 128,521 | - | - | - | 128,521 |
| Construction in-progress | 15,777,296 | 197,976 | - | (15,777,297) | 197,975 |
| | $ 20,255,817 | $ 1,716,775 | $ - | $ (15,777,297) | $ 6,195,295 |
| College depreciable capital assets: | | | | | |
| Land improvements | $ 3,477,914 | $ - | $ - | $ - | $ 3,477,914 |
| Infrastructure | 6,001,648 | 3,343,131 | - | - | 9,344,779 |
| Buildings | 72,128,414 | 5,678,643 | - | 15,777,297 | 93,584,354 |
| Capital equipment | 10,620,898 | 944,569 | (624,405) | - | 10,941,062 |
| Library resources | 1,312,741 | - | (4,175) | - | 1,308,566 |
| Training center | 392,594 | - | - | - | 392,594 |
| | 93,934,209 | 9,966,343 | (628,580) | 15,777,297 | 119,049,269 |
| Less: accumulated depreciation for: | | | | | |
| Land improvements | 2,971,503 | 147,008 | - | - | 3,118,511 |
| Infrastructure | 3,485,041 | 386,195 | - | - | 3,871,236 |
| Buildings | 18,891,123 | 1,770,734 | - | - | 20,661,857 |
| Capital equipment | 6,378,582 | 1,099,954 | (566,264) | - | 6,912,272 |
| Library resources | 1,193,815 | 38,029 | - | - | 1,231,844 |
| Training center | 199,630 | 34,548 | - | - | 234,178 |
| | 33,119,694 | 3,476,468 | (566,264) | - | 36,029,898 |
| College depreciable capital assets, net | $ 60,814,515 | $ 6,489,875 | $ (62,316) | $ 15,777,297 | $ 83,019,371 |
| Capital asset summary: | | | | | |
| College capital assets not being depreciated | $ 20,255,817 | $ 1,716,775 | $ - | $ (15,777,297) | $ 6,195,295 |
| College depreciable capital assets at cost | 93,934,209 | 9,966,343 | (628,580) | 15,777,297 | 119,049,269 |
| College total cost of capital assets | 114,190,026 | 11,683,118 | (628,580) | - | 125,244,564 |
| Less: accumulated depreciation | (33,119,694) | (3,476,468) | 566,264 | - | (36,029,898) |
| College capital assets, net | $ 81,070,332 | $ 8,206,650 | $ (62,316) | $ - | $ 89,214,666 |

## NOTE 8. LONG-TERM LIABILITIES

Outstanding bonds payable are summarized as follows:

| Description | Interest Rate | Balance June 30, 2012 | Final Payment Maturity |
|---|---|---|---|
| Series 2003A | 1.99-3.34% | $ 288,726 | 6/1/2013 |
| Series 2003B | 1.99-3.34% | 103,396 | 5/1/2013 |
| Series 2007 | 3.25-3.50% | 7,800,000 | 8/1/2013 |
| Series 2009 | 1.00-2.00% | 3,150,000 | 8/1/2015 |
| Series 2010 | 2.00-3.00% | 19,370,000 | 8/1/2020 |
| | | $ 30,712,122 | |

Future debt service for the bonds is as follows:

| Fiscal Year Ended | Principal Payments | Interest | Total |
|---|---|---|---|
| 2013 | $ 5,627,122 | $ 630,578 | $ 6,257,700 |
| 2014 | 5,430,000 | 457,810 | 5,887,810 |
| 2015 | 2,000,000 | 409,672 | 2,409,672 |
| 2016 | 3,340,000 | 345,293 | 3,685,293 |
| 2017 | 3,900,000 | 268,226 | 4,168,226 |
| 2018-2020 | 10,415,000 | 418,337 | 10,833,337 |
| | $ 30,712,122 | $ 2,529,916 | $ 33,242,038 |

Long-term activity for the year ended was as follows:

| | Balance June 30, 2011 | Additions | Deductions | Balance June 30, 2012 | Current Portion |
|---|---|---|---|---|---|
| Series 2003A | $ 567,745 | $ - | $ (279,019) | $ 288,726 | $ 288,726 |
| Series 2003B | 203,316 | - | (99,920) | 103,396 | 103,396 |
| Series 2007 | 11,700,000 | - | (3,900,000) | 7,800,000 | 3,900,000 |
| Series 2009 | 3,900,000 | - | (750,000) | 3,150,000 | 1,000,000 |
| Series 2010 | 20,000,000 | - | (630,000) | 19,370,000 | 335,000 |
| Subtotal | 36,371,061 | - | (5,658,939) | 30,712,122 | 5,627,122 |
| Bond discount | - | - | - | - | - |
| Total bonds | 36,371,061 | - | (5,658,939) | 30,712,122 | 5,627,122 |
| Accrued compensated absences | 1,015,666 | 887,813 | (860,610) | 1,042,869 | 846,761 |
| | $ 37,386,727 | $ 887,813 | $ (6,519,549) | $ 31,754,991 | $ 6,473,883 |

## NOTE 8. LONG-TERM LIABILITIES (Continued)

The bonds constitute general obligation bonds of the district, payable from general ad valorem taxes which shall be levied on all taxable property in the district in an amount sufficient to produce a sum equal to one year's interest on all bonds then outstanding, together with an amount sufficient to pay the principal on all bonds as they mature. This levy shall not exceed 3% of assessed valuation, and the College is currently at less than one percent (1%) of assessed valuation.

## NOTE 9. ACCRUED LIABILITIES

At June 30, 2012, accrued liabilities consisted of the following:

| | | |
|---|---|---|
| Accrued benefits payable | $ | 529,500 |
| Accrued payroll taxes | | 461,818 |
| | $ | 991,318 |

## NOTE 10. PENSION PLAN – EDUCATION RETIREMENT BOARD

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

*Funding Policy.* Plan members earning $20,000 or less annually are required by statute to contribute 7.9% of their gross salary. Plan members earning over $20,000 annually were required to contribute 11.15% of their gross salary in fiscal year 2012 and will be required to contribute 9.40% of their gross salary in fiscal year 2013. The College has been and is required to contribute 12.4% of the gross covered salary for employees earning $20,000 or less, in fiscal years 2012 and 2013. In fiscal year 2012 the College contributed 9.15% of the gross covered salary of employees earning more than $20,000 annually. In fiscal year 2013 the College will contribute 10.9% of the gross covered salary of employees earning more than $20,000 annually. The contribution requirements of plan members and the College are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The College's contributions to ERB for the fiscal years ending June 30, 2012, 2011, and 2010, were $1,959,999, $2,056,691, and $2,052,421, respectively, which equal the amount of the required contributions for each fiscal year.

## NOTE 11. ALTERNATIVE RETIREMENT PROGRAM

An amendment to the Educational Retirement Act permits the establishment of an Alternative Retirement Plan (ARP) for Santa Fe Community College staff after October 1, 1999, who are eligible to participate in the Educational Retirement Act Plan. Certain employees of the College elected to participate in the two available alternative retirement plans, TIAA-CREF and VALIC. On September 1, 2011, the plan vendor VALIC was no longer being offered. Only TIAA-CREF and Fidelity are plan vendors after September 1, 2011. For those employees participating in the ARP, the College contributed 9.4% of the gross covered salary for employees earning $20,000 or less, and 6.15% of the gross covered salary of employees earning more than $20,000 annually. In addition, the College is required to contribute 3% of the gross covered salary to the Education Retirement Board pension plan (See Note 11). For the year ended June 30, 2012, the Santa Fe Community College contributed $81,534 to TIAA-CREF, and $127 to VALIC.

## NOTE 12. PREMIUM CONVERSION PLAN

Effective as of September 1, 1987, Santa Fe Community College adopted the Premium Conversion Plan, a welfare benefits plan, to provide benefits for certain of its employees. The Plan is designed to meet the appropriate requirements of the Internal Revenue Code Sections 105, 106, 125, and any other Applicable Law. It is specifically designated as a Cafeteria Plan under Code Section 125, which allows eligible employees of an employer to choose between receiving a portion of their current compensation in the form of certain welfare benefits provided under the Plan or as taxable cash income. Qualified expenditures for the tax savings plan are medical and dental insurance benefits.

## NOTE 13. TAX SHELTERED ANNUITY

Santa Fe Community College submits payments for payroll deductions from individual employees who have enrolled themselves in a tax-sheltered annuity. Santa Fe Community College does not make any contribution to these tax annuity plans. The annuities are tax-sheltered retirement savings account under Section 403 (b) of the Internal Revenue Code.

## NOTE 14. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

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

## NOTE 14. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (Continued)

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

| Fiscal Year Contribution Rate | Employer Contribution Rate | Employee Contribution Rate |
|---|---|---|
| FY13 | 2.000% | 1.000% |

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

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature. The College's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were $392,381, $324,718, and $250,869, respectively, which equal the required contributions for each year.

## NOTE 15. BUDGETS AND BUDGETARY ACCOUNTING

Operating budgets for the College are submitted for approval to the Board of Directors, the New Mexico Higher Education Department (HED) and the State Budget Division of the Department of Finance and Administration (DFA). Similarly, separate legislative budget requests are submitted to the Board of Directors, HED and DFA for inclusion in the State of New Mexico Executive Budget for consideration of appropriations by the state legislature. The budgets are prepared on the fund accounting principles which were applicable prior to GASB Statement No. 34, 35, 37 and 38 (Budgetary Basis). By contrast, the College prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP Basis).

Budget revision requests, other than transfers among line items within a category, are subject to joint approval by the HED and DFA.

Procedures for Approval of Operating Budgets:

1. Each institution will submit a governing board approved operating budget to the HED staff by May 1st.

2. The HED meets about the middle of June and acts on the proposed fiscal year operating budgets submitted for review and recommendation.

3. The budgets as approved by the HED are transmitted to the Budget Division of DFA for official and final approval prior to July.

Pages 29-32 of this report present a comparison of actual (budgetary basis) operations to the final revised and approved operating budget. Reconciliations are presented for differences between budgetary basis and GAAP basis.

At June 30, 2012, the College overspent its approved expenditures budget in the following categories:

| | | |
|---|---|---|
| Student social and cultural activities | $ | 8,650 |
| Internal services | | 10,420 |
| Student aid, grants stipends and independent operations | | 182,894 |
| Capital outlay | | 6,922,337 |

## NOTE 16. COMMITMENTS AND CONTINGENCIES

*Lease Commitment.* The College has several non-cancelable operating leases. The lease terms range from 3 to 5 years with final commitments through fiscal year 2018. Minimum future rental payments under operating leases having remaining terms in excess of one year are as follows for the fiscal years ended June 30,

| | | |
|---|---|---|
| 2013 | $ | 222,100 |
| 2014 | | 215,915 |
| 2015 | | 216,045 |
| 2016 | | 211,569 |
| 2017 | | 184,041 |
| Thereafter | | 15,337 |
| Total | $ | 1,065,007 |

*Litigation.* The College is liable or contingently liable in connection with certain claims that arise in the normal course of its activities. It is the opinion of management that uninsured losses resulting from these claims would not be material to the College’s financial position or operations.

*Encumbrances.* At June 30, 2012, the College has $1,160,997 of outstanding capital commitments to contractors and architects.

## NOTE 17. GENERAL LIABILITY INSURANCE

The College has general liability insurance coverage with Travelers. The policy covers property, general liability, inland marine, auto, crime and fidelity. The College also has a $10,000,000 per occurrence and in aggregate umbrella coverage. The policy was extended to include the Training Center and GROW. The policy period is from July 1, 2011 to June 30, 2012.

## NOTE 18. PRIOR PERIOD ADJUSTMENT

The College restated net assets at June 30, 2011 is as follows:

| | Invested in Capital Assets, Net of Related Debt | Debt Service | Capital Projects | Unrestricted | Total Net Assets |
|---|---|---|---|---|---|
| Beginning net assets, as previously reported | $ 42,220,244 | $ 6,537,873 | $ 19,979,026 | $ 8,438,916 | $ 77,176,059 |
| Adjustment for various items improperly recognized as revenue in fiscal year ending June 30, 2011 | - | - | - | (276,943) | (276,943) |
| Adjustment to capitalize assets which were expensed in the fiscal year ending June 30, 2011 | 484,951 | - | - | - | 484,951 |
| Adjustment to accumulated depreciation which was miscalculated in prior fiscal years | 1,994,076 | - | - | - | 1,994,076 |
| Beginning net assets, as corrected | $ 44,699,271 | $ 6,537,873 | $ 19,979,026 | $ 8,161,973 | $ 79,378,143 |

## NOTE 18. PRIOR PERIOD ADJUSTMENT (Continued)

The restatement of capital assets at June 30, 2011 is as follows:

| | As previously Reported | Prior Period Adjustment | Restated Balance |
|---|---|---|---|
| College capital assets not being depreciated: | | | |
| Land | $ 4,350,000 | $ - | $ 4,350,000 |
| Artwork | 128,521 | - | 128,521 |
| Construction in-progress | 15,777,296 | - | 15,777,296 |
| | $ 20,255,817 | $ - | $ 20,255,817 |
| College depreciable capital assets: | | | |
| Land improvements | $ 3,477,914 | $ - | $ 3,477,914 |
| Infrastructure | 5,935,637 | 66,011 | 6,001,648 |
| Buildings | 72,128,414 | - | 72,128,414 |
| Capital equipment | 10,201,958 | 418,940 | 10,620,898 |
| Library resources | 1,312,741 | - | 1,312,741 |
| Training center | 392,594 | - | 392,594 |
| | 93,449,258 | 484,951 | 93,934,209 |
| Less: accumulated depreciation for: | | | |
| Land improvements | 3,051,778 | (80,275) | 2,971,503 |
| Infrastructure | 3,654,958 | (169,917) | 3,485,041 |
| Buildings | 19,485,831 | (594,708) | 18,891,123 |
| Capital equipment | 7,526,535 | (1,147,953) | 6,378,582 |
| Library resources | 1,247,912 | (54,097) | 1,193,815 |
| Training center | 146,756 | 52,874 | 199,630 |
| | 35,113,770 | (1,994,076) | 33,119,694 |
| College depreciable capital assets, net | $ 58,335,488 | $ 2,479,027 | $ 60,814,515 |
| Capital asset summary: | | | |
| College capital assets not being depreciated | $ 20,255,817 | $ - | $ 20,255,817 |
| College depreciable capital assets at cost | 93,449,258 | 484,951 | 93,934,209 |
| College total cost of capital assets | 113,705,075 | 484,951 | 114,190,026 |
| Less: accumulated depreciation | (35,113,770) | 1,994,076 | (33,119,694) |
| College capital assets, net | $ 78,591,305 | $ 2,479,027 | $ 81,070,332 |

# SUPPLEMENTARY INFORMATION SECTION

## For the Year Ended June 30, 2012

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts (Modified Accrual) | Variance Over (Under) |
|---|---|---|---|---|
| Revenues: | | | | |
| Tuition | $ 5,157,675 | $ 5,261,000 | $ 5,179,171 | $ (81,829) |
| Miscellaneous fees | 1,383,700 | 1,334,000 | 1,439,326 | 105,326 |
| Federal government appropriations | - | - | - | - |
| State government appropriations | 12,166,100 | 11,897,849 | 12,324,428 | 426,579 |
| Local government appropriations | 21,399,500 | 21,472,433 | 22,314,641 | 842,208 |
| Federal government contracts and grants | 19,643,420 | 22,012,693 | 20,186,176 | (1,826,517) |
| State government contracts and grants | 3,659,631 | 3,073,249 | 2,156,158 | (917,091) |
| Local government contracts and grants | 204,104 | 205,550 | 109,560 | (95,990) |
| Private gifts, grants, and contracts | 863,374 | 819,820 | 960,285 | 140,465 |
| Land and permanent fund | - | - | - | - |
| Sales and services | 3,369,934 | 3,557,035 | 3,541,809 | (15,226) |
| Other | 192,250 | 515,000 | 385,127 | (129,873) |
| **Total Revenues** | 68,039,688 | 70,148,629 | 68,596,681 | (1,551,948) |
| Expenditures: | | | | |
| Instruction | 16,363,339 | 17,240,143 | 17,215,223 | (24,920) |
| Academic support | 5,072,315 | 4,933,526 | 4,019,937 | (913,589) |
| Student services | 4,470,988 | 4,572,019 | 3,282,687 | (1,289,332) |
| Institutional support | 5,617,491 | 6,172,347 | 5,959,902 | (212,445) |
| Operation and maintenance of plant | 3,155,289 | 3,153,050 | 3,019,983 | (133,067) |
| Student social and cultural activities | 119,146 | 100,000 | 108,650 | 8,650 |
| Public services | 8,666,092 | 7,914,907 | 7,590,773 | (324,134) |
| Internal services | - | - | 10,420 | 10,420 |
| Student aid, grants stipends and independent operations | 15,761,998 | 17,222,092 | 17,404,986 | 182,894 |
| Auxiliary enterprises | 2,447,730 | 2,910,974 | 2,753,916 | (157,058) |
| Capital outlay | 9,897,412 | 7,100,000 | 14,022,337 | 6,922,337 |
| Building renewal and replacements | 410,398 | 5,900,000 | 807,479 | (5,092,521) |
| Retirement of indebtedness | 6,700,000 | 6,624,801 | 6,417,971 | (206,830) |
| **Total Expenditures** | 78,682,198 | 83,843,859 | 82,614,264 | (1,229,595) |
| **Net Transfers** | - | - | - | - |
| **Change in Net Assets** | (10,642,510) | (13,695,230) | (14,017,583) | (322,353) |
| Beginning, Net Assets | 24,655,320 | 37,187,035 | 37,187,035 | - |
| **Ending, Net Assets** | $ 14,012,810 | $ 23,491,805 | $ 23,169,452 | $ (322,353) |

**For the Year Ended June 30, 2012**

| | |
|---|---|
| **Total Unrestricted and Restricted Revenues:** | |
| **Budgetary Basis** | $ 68,596,681 |
| Reconciling Items: | |
| Scholarship allowance (not in budgetary basis) | (2,991,016) |
| Mill levy (not in budgetary basis) | 2,188,623 |
| Agency fund activity (not in budgetary basis) | 305,000 |
| Other revenue (not in budgetary basis) | (8,194,872) |
| Total reconciling items | (8,692,265) |
| **GAAP Basis** | $ 59,904,416 |
| **Basic Financial Statements** | |
| Operating revenues | $ 14,952,965 |
| Non-operating revenues | 44,951,451 |
| **Total Unrestricted and Restricted Revenues per Financial Statements** | $ 59,904,416 |
| **Total Unrestricted and Restricted Expenditures:** | |
| **Budgetary Basis** | $ 82,614,264 |
| Reconciling Items: | |
| Bond payment (not in financial statements) | (5,658,939) |
| Scholarship allowance (not in budgetary basis) | (2,991,016) |
| Capital outlay (not in financial statements) | (11,683,116) |
| Other expenses (not in budgetary basis) | (7,919,830) |
| Agency fund activity (not in budgetary basis) | 251,648 |
| Depreciation expense (not in budgetary basis) | 3,476,468 |
| Total reconciling items | (24,524,785) |
| **GAAP Basis** | $ 58,089,479 |
| **Basic Financial Statements** | |
| Operating expenditures | $ 57,330,447 |
| Non-operating expenditures | 759,032 |
| **Total Unrestricted and Restricted Expenditures per Financial Statements** | $ 58,089,479 |

Note: The purpose of the Budget Comparison is to reconcile the change in net assets as reported on a budgetary basis to the change in net assets as reported using generally accepted accounting principles. The reporting of actuals (budgetary basis) is a non-GAAP accounting method that excludes depreciation expense and includes the cost of capital equipment purchases. The budgetary basis approximates the fund basis of accounting.

Under title 5 of the New Mexico Administrative Code, chapter 3, part 4, paragraph 10 – Items of Budgetary Control: The total expenditures in each of the following budgetary functions will be used as the items of budgetary control. Total expenditures or transfers in each of these items of budgetary control may not exceed the amount shown in the approved budget. A) Unrestricted expenditures and restricted expenditures. B) Instruction and general. C) Each budget function in current funds other than instruction and general. D) Within the plant funds budget: major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service. E) Each individual item of transfer between funds and/or functions.

## For the Year Ended June 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|---|---|---|---|
| | Original | Final | (Modified Accrual) | Over (Under) |
| Revenues: | | | | |
| Tuition | $ 5,057,675 | $ 5,161,000 | $ 5,179,171 | $ 18,171 |
| Miscellaneous fees | 1,383,700 | 1,334,000 | 1,341,221 | 7,221 |
| Federal government appropriations | - | - | - | - |
| State government appropriations | 8,203,400 | 8,162,500 | 8,203,400 | 40,900 |
| Local government appropriations | 15,000,000 | 15,000,000 | 16,730,563 | 1,730,563 |
| Federal government contracts and grants | - | - | - | - |
| State government contracts and grants | - | - | - | - |
| Local government contracts and grants | - | - | - | - |
| Private gifts, grants, and contracts | - | - | - | - |
| Land and permanent fund | - | - | - | - |
| Sales and services | - | - | 144,239 | 144,239 |
| Other | 175,000 | 500,000 | 261,868 | (238,132) |
| **Total Revenues** | 29,819,775 | 30,157,500 | 31,860,462 | 1,702,962 |
| Expenditures: | | | | |
| Instruction | 14,459,236 | 13,844,631 | 14,402,925 | 558,294 |
| Academic support | 3,101,483 | 3,212,694 | 2,744,907 | (467,787) |
| Student services | 2,849,523 | 2,950,554 | 3,022,200 | 71,646 |
| Institutional support | 5,457,740 | 6,172,347 | 5,959,902 | (212,445) |
| Operation and maintenance of plant | 2,948,612 | 3,146,373 | 3,029,983 | (116,390) |
| Student social and cultural activities | - | - | - | - |
| Public services | - | - | - | - |
| Internal services | - | - | - | - |
| Student aid, grants stipends and independent operations | - | - | - | - |
| Auxiliary enterprises | - | - | - | - |
| Capital outlay | - | - | - | - |
| Building renewal and replacements | - | - | - | - |
| Retirement of indebtedness | - | - | - | - |
| **Total Expenditures** | 28,816,594 | 29,326,599 | 29,159,917 | (166,682) |
| **Net Transfers** | (1,800,000) | (3,275,665) | - | 3,275,665 |
| **Change in Net Assets** | (796,819) | (2,444,764) | 2,700,545 | 5,145,309 |
| Beginning, Net Assets | 2,378,692 | 4,962,743 | 4,962,743 | - |
| **Ending, Net Assets** | $ 1,581,873 | $ 2,517,979 | $ 7,663,288 | $ 5,145,309 |

**For the Year Ended June 30, 2012**

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|---|---|---|---|
| | Original | Final | (Modified Accrual) | Over (Under) |
| Revenues: | | | | |
| Tuition | $ - | $ - | $ - | $ - |
| Miscellaneous fees | - | - | - | - |
| Federal government appropriations | - | - | - | - |
| State government appropriations | - | - | - | - |
| Local government appropriations | - | - | - | - |
| Federal government contracts and grants | 3,513,215 | 4,413,427 | 2,602,223 | (1,811,204) |
| State government contracts and grants | 1,655,149 | 1,615,149 | 980,536 | (634,613) |
| Local government contracts and grants | 109,550 | 109,550 | 11,926 | (97,624) |
| Private gifts, grants, and contracts | 584,914 | 606,360 | 743,130 | 136,770 |
| Land and permanent fund | - | - | - | - |
| Sales and services | - | - | - | - |
| Other | - | - | - | - |
| **Total Revenues** | 5,862,828 | 6,744,486 | 4,337,815 | (2,406,671) |
| Expenditures: | | | | |
| Instruction | 1,904,103 | 3,395,512 | 2,812,298 | (583,214) |
| Academic support | 1,970,832 | 1,720,832 | 1,275,030 | (445,802) |
| Student services | 1,621,465 | 1,621,465 | 260,487 | (1,360,978) |
| Institutional support | 159,751 | - | - | - |
| Operation and maintenance of plant | 206,677 | 6,677 | (10,000) | (16,677) |
| Student social and cultural activities | - | - | - | - |
| Public services | - | - | - | - |
| Internal services | - | - | - | - |
| Student aid, grants stipends and independent operations | - | - | - | - |
| Auxiliary enterprises | - | - | - | - |
| Capital outlay | - | - | - | - |
| Building renewal and replacements | - | - | - | - |
| Retirement of indebtedness | - | - | - | - |
| **Total Expenditures** | 5,862,828 | 6,744,486 | 4,337,815 | (2,406,671) |
| **Net Transfers** | - | - | - | - |
| **Change in Net Assets** | - | - | - | - |
| Beginning, Net Assets | - | - | - | - |
| **Ending, Net Assets** | $ - | $ - | $ - | $ - |

**June 30, 2012**

| Depository/Account Name | Account Type | Institution Balance | Reconciled Book Balance |
|---|---|---|---|
| ***COLLEGE*** | | | |
| **Deposit** | | | |
| Petty Cash | N/A | $ - | $ 12,175 |
| Wells Fargo - Operating | Checking | 4,543,673 | 4,086,689 |
| Wells Fargo - Payroll | Checking | 661,936 | 373,154 |
| First National Bank | Money Market | 4,976,408 | 4,976,408 |
| Bank of America | Money Market | 2,333,588 | 2,333,588 |
| NM Finance Authority | Money Market | 332,581 | 332,581 |
| | | $ 12,848,186 | $ 12,114,595 |
| **Investment** | | | |
| NM Treasurer | Local Government Investment Pool | $ 9,544,890 | $ 9,544,890 |
| ***FOUNDATION*** | | | |
| **Deposit** | | | |
| Wells Fargo | Deposit | $ 225,190 | $ 225,190 |
| Wells Fargo | Restricted Deposit | 872,948 | 872,948 |
| | | $ 1,098,138 | $ 1,098,138 |
| **Investment** | | | |
| Fidelity Investments | Mutual Funds - Equities | $ 1,489,343 | $ 1,489,343 |
| Fidelity Investments | Mutual Funds - Bonds | 1,539,281 | 1,539,281 |
| Fidelity Investments | Money Market Mutual Funds | 574,772 | 574,772 |
| Pershing Investments | Corporate Stocks | 549,090 | 549,090 |
| Citi Hedge Fund Services | Hedge Funds | 527,392 | 527,392 |
| Caledonian Fund Services | Hedge Funds | 33,184 | 33,184 |
| | | $ 4,713,062 | $ 4,713,062 |

**June 30, 2012**

| | First National Bank | Wells Fargo Operating | Wells Fargo Payroll | Bank of America | Total |
|---|---|---|---|---|---|
| **Bank Balance** | $ 4,976,408 | $ 4,543,673 | $ 661,936 | $ 2,333,588 | $ 12,515,605 |
| FDIC insurance | (250,000) | (4,543,673) | (250,000) | (250,000) | (5,293,673) |
| Uninsured public funds | 4,726,408 | - | 411,936 | 2,083,588 | 7,221,932 |
| 50% requirement | 2,363,204 | - | 205,968 | 1,041,794 | 3,610,966 |
| 102% requirement | - | - | - | - | - |
| Total collateral requirements | 2,363,204 | - | 205,968 | 1,041,794 | 3,610,966 |
| Collateral pledged by banks | 2,550,084 | - | 252,609 | 1,700,353 | 4,503,046 |
| Over (under) collateral requirements | $ 186,880 | $ - | $ 46,641 | $ 658,559 | $ 892,080 |

| | NM Finance Authority |
|---|---|
| Funds on deposit with no collateral requirements (New Mexico Finance Authority as Trustee) Debt Service Funds | $ 332,581 |

**Collateral Pledged:**

| Institution | Location | CUSIP No. | Maturity | Fair Value |
|---|---|---|---|---|
| *First National Bank of Santa Fe held in its Trust Department* | | | | |
| FHLMC - Pool E00543 | Federal | 31294JS82 | 04/01/13 | $ 2,432 |
| FHLMC Fixed Rate | Reserve | 3134G3JU5 | 01/23/17 | 1,543,880 |
| FNMA Fixed Rate | Bank | 3135G0HQ9 | 02/27/17 | 1,003,772 |
| | | | | $ 2,550,084 |
| *Bank of America held in the name of Santa Fe Community College* | | | | |
| FNCL Pool - AE0478 | Federal Reserve Bank | 31419AQ83 | 11/01/40 | $ 1,700,353 |
| *Wells Fargo Bank held in the name of Santa Fe Community College* | | | | |
| FNMA-PT - Pool AI0889 | Bank | 3138AD7B5 | 04/01/41 | $ 22,457 |
| FNMA-PT - Pool AH1560 | of | 3138A2WW5 | 01/01/41 | 18,559 |
| FNMA-PT - Pool AJ4641 | New York | 3138AWEP4 | 10/01/41 | 211,593 |
| | | | | $ 252,609 |

# SINGLE AUDIT INFORMATION

**For the Year Ended June 30, 2012**

| Federal Grantor / Pass-through Grantor / Program Title | CFDA Number | Subaward Number | Federal Expenditures |
|---|---|---|---|
| **United States Department of Education** | | | |
| *Direct Awards* | | | |
| Student Financial Aid Cluster: | | | |
| Federal Supplemental Educational Opportunity Grant | 84.007 | N/A | $ 72,100 |
| Federal Work-Study Grant | 84.033 | N/A | 72,948 |
| Federal Pell Grant | 84.063 | N/A | 7,811,788 |
| Academic Competitiveness Grants | 84.375 | N/A | 188 |
| Subtotal Student Financial Aid Cluster | | | 7,957,024 |
| TRIO Cluster: | | | |
| TRIO Student Support Services | 84.042 | N/A | 252,808 |
| Title V | 84.031 | N/A | 700,197 |
| Vocational Access - Title I - Basic Grants | 84.048 | N/A | 77,735 |
| TESOL - Title II | 84.195N | N/A | 153,532 |
| Vocational Access - Tech Prep | 84.243 | N/A | 153,754 |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334A | N/A | 38,198 |
| *Subtotal United States Department of Education - Direct Awards* | | | 9,333,248 |
| *Pass Through Awards* | | | |
| Passed through New Mexico Higher Education Department | | | |
| Adult Education - Basic Grants to States | 84.002 | V002A080031 | 222,887 |
| Passed through Northern New Mexico College | | | |
| NRGSC | 84.031C | P031C110094 | 47,040 |
| *Subtotal United States Department of Education - Pass Through Awards* | | | 269,927 |
| **Total United States Department of Education** | | | 9,603,175 |
| **United States Department of Agriculture** | | | |
| Passed through New Mexico Children Youth & Family | | | |
| Child Care Food Program | 10.558 | 0294 | 27,624 |
| **United States Department of Defense** | | | |
| Procurement Technical Assistance for Business Firms | 12.002 | N/A | 419,959 |
| **United States Department of Energy** | | | |
| Passed through New Mexico Mortgage Finance Authority | | | |
| America Recovery & Reinvestment Act (ARRA) | | | |
| ENERGY$MART Program Training Academy | 81.042 | 10-09-WAPTC-002 | 207,605 |
| Passed through Regional Development Corporation | | | |
| Office of Environmental Waste Processing | 81.104 | DE-EM0001367 | 58,353 |
| **Total United States Department of Energy** | | | $ 265,958 |

**See Accompanying Independent Auditors' Report**

For the Year Ended June 30, 2012

| Federal Grantor / Pass-through Grantor / Program Title | CFDA Number | Subaward Number | Federal Expenditures |
|---|---|---|---|
| **United States Department of Health and Human Services** | | | |
| Passed through New Mexico Children Youth & Family | | | |
| CCDF Cluster: | | | |
| Child Care and Development Block Grant | 93.575 | 11-690-11865-1 | $ 176,511 |
| **United States Department of Labor** | | | |
| *Direct Awards* | | | |
| Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants | 17.282 | N/A | 128,651 |
| *Pass Through Awards* | | | |
| Passed through New Mexico Department of Workforce Solutions | | 12-631-9999-00021 | |
| America Recovery & Reinvestment Act (ARRA) | | 12-631-9999-00024 | |
| Program of Competitive Grants for Worker Training and | | 12-631-9999-00034-A1 | |
| Placement in High Growth and Emerging Industry Sectors | 17.275 | 12-631-9999-00036-A1 | 539,556 |
| **Total United States Department of Labor** | | | 668,207 |
| **United States Environmental Protection Agency** | | | |
| Healthy Indoor Environments | 66.034 | N/A | 16,242 |
| Environmental Workforce Development and Job Training Cooperative Agreement | 66.815 | N/A | 29,142 |
| **Total United States Environmental Protection Agency** | | | 45,384 |
| **United States Small Business Administration** | | | |
| Small Business Development Centers | 59.037 | N/A | 791,851 |
| **National Science Foundation** | | | |
| Passed through New Mexico State University | | | |
| NM Alliance for Minority Participation | 47.076 | Q01498 | 4,686 |
| **Total Federal Expenditures** | | | $ 12,003,355 |

## Note 1

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Santa Fe Community College and is presented on the accrual basis of accounting.

## Note 2

During the year ended June 30, 2012, federal direct student loans made to students were as follows:

| | CFDA No. | Disbursements |
|---|---|---|
| Direct loan program | 84.268 | $ 8,194,896 |

Direct student loans made during the year are not included in the Schedule of Expenditures of Federal Awards.

## Note 3

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the College provided federal awards to subrecipients as follows:

| Program Title | CFDA No. | Amount Provided to Subrecipient |
|---|---|---|
| U.S. Small Business Administration - New Mexico | 59.037 | |
| Small Business Subcenters: | | |
| Central NM Community College | | $ 21,689 |
| Central NM Community College - South Valley | | 21,689 |
| Clovis Community College | | 21,689 |
| Dona Ana Community College | | 21,689 |
| Eastern New Mexico University - Roswell | | 21,689 |
| Luna Community College | | 21,689 |
| Mesalands Community College | | 21,689 |
| New Mexico Junior College | | 21,689 |
| Northern NM Community College | | 21,689 |
| NM State University - Alamogordo | | 21,689 |
| NM State University - Carlsbad | | 21,689 |
| NM State University - Grants | | 21,689 |
| Santa Fe Community College | | 21,689 |
| San Juan College | | 21,689 |
| UNM - Gallup | | 21,689 |
| UNM - Los Alamos | | 21,689 |
| UNM - Valencia | | 21,689 |
| Western NM University | | 21,689 |
| | | $ 390,402 |

## Note 4

There was no non-cash assistance provided by the College for the fiscal year ending June 30, 2012.

ABEYTA • WEINER • CHERNE P.C.
Certified Public Accountants

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

Governing Board
Santa Fe Community College
Santa Fe, New Mexico

We have audited the financial statements of the business-type activities, the discretely presented component unit, and related budgetary comparisons presented as supplemental information of the State of New Mexico Santa Fe Community College (the College) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, 11-01, 12-02, 12-03, 12-05, 12-08, 12-09 and 12-10.

1701 Old Pecos Trail, Suite B | Santa Fe, NM 87505 | Phone 505.424.7200 | Fax 505.424.8500
Members American Institute of Certified Public Accountants

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies, 12-01, 12-04, 12-06, 12-07, 12-11 and 12-01F.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 12-01 and 12-02.

We also noted certain other matters that are required to be reported pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 12-15,12-16, 12-17, 12-18 and 12-02F.

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

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

Abeyta, Weiner & Cherne, P.C.

December 14, 2012

ABEYTA • WEINER • CHERNE P.C.
Certified Public Accountants

**Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

Governing Board
Santa Fe Community College
Santa Fe, New Mexico

**Compliance**

We have audited the State of New Mexico Santa Fe Community College's (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2012. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 12-12, 12-13 and 12-14.

1701 Old Pecos Trail, Suite B | Santa Fe, NM 87505 | Phone 505.424.7200 | Fax 505.424.8500
**Members American Institute of Certified Public Accountants**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 12-12, 12-13 and 12-14. 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.

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

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

Abeyta, Weiner & Cherne, P.C.

December 14, 2012

## I. SUMMARY OF AUDITORS' RESULTS

***Financial Statements***

| | |
|---|---|
| Type of auditors' report issued | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) reported? | [X] Yes [ ] No |
| Significant deficiency(s) reported that are not considered to be material weakness(es)? | [X] Yes [ ] None Reported |
| Non-compliance material to financial statements noted? | [ ] Yes [X] No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) reported? | [ ] Yes [X] No |
| Significant deficiency(s) reported that are not considered to be material weakness(es)? | [X] Yes [ ] None Reported |
| Type of auditors' report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | [X] Yes [ ] No |

***Identification of Major Programs:***

| Name of Federal Program or Cluster | CFDA Number |
|---|---|
| Student Financial Aid Cluster | 84.007 |
| Student Financial Aid Cluster | 84.033 |
| Student Financial Aid Cluster | 84.063 |
| Student Financial Aid Cluster | 84.268 |
| Student Financial Aid Cluster | 84.375 |
| Title V | 84.031 |
| Procurement Technical Assistance for Business Firms | 12.002 |
| Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors | 17.275 |
| Small Business Development Centers | 59.037 |

| | |
|---|---|
| Dollar threshold used to distinguish between Types A and B programs | $ 300,000 |
| Auditee qualified as low-risk auditee? | [X] Yes [ ] No |

## II. FINANCIAL STATEMENT FINDINGS (PRIOR YEAR)

| | | |
|---|---|---|
| 11-01 | Bank Reconciliations Not Reviewed | Repeat and Modified |
| 11-02 | Local Government Investment Pool Transfers Not Reviewed | Resolved |
| 11-03 | Student Financial Aid - Return to Title IV | Resolved |

## II. FINANCIAL STATEMENT FINDINGS

### 11-01 TIMELY RECONCILIATION OF BANK RECONCILIATIONS (MATERIAL WEAKNESS)

CONDITION
The June 30, 2012 payroll bank account reconciliation was not completed until November 2012.

CRITERIA
Appropriate internal controls over cash require timely reconciliation of payroll bank accounts to the general ledger in order to ensure adequate control over cash receipts and disbursements.

CAUSE
Those responsible for monthly payroll bank reconciliations did not comply with existing internal controls in place requiring the timely reconciliation of bank checking accounts to the general ledger.

EFFECT
There is an increased risk of error or fraud in the financial records that may not be detected on a timely basis.

RECOMMENDATION
We suggest that the College ensure that existing internal controls requiring timely bank reconciliations to the general ledger be followed.

MANAGEMENT RESPONSE
A report on the status of bank reconciliations will be delivered to the Vice President for Finance and Administration, monthly, along with the board report. A periodic bank reconciliation check will be conducted by the Vice President's office, quarterly, to ensure that procedures are being followed.

## 12-01 CAPITAL LEASE (SIGNIFICANT DEFICIENCY)

CONDITION

The College entered into a capital lease committing the College to a multi-term obligation without a provision for cancellation in the event funds are not appropriated or otherwise made available to support continuation or performance of a multi-term contract in a subsequent fiscal year.

CRITERIA

13-1-152 NMSA 1978, (Multi-term contracts; cancellation due to unavailability of funds) requires that when funds are not appropriated or otherwise made available to support continuation of performance of a multi-term contract in a subsequent fiscal period, the contract shall be cancelled.

CAUSE

The Purchasing Department failed to identify that a capital lease entered into did not include a provision for cancellation in the event funds are not appropriated or otherwise made available to support continuation of performance of a multi-term contract in a subsequent fiscal year.

EFFECT

The College has entered into a multi-term lease agreement contract obligating future year budgets.

RECOMMENDATION

We suggest the College implement policies and procedures to ensure that a lease agreement contains language consistent with 13-1-152 NMSA 1978.

MANAGEMENT RESPONSE

Due to the small amount for this single purchase of a piece of medical equipment, the expenditure was not recognized by the Purchasing Department. The VP for Finance and Administration has developed training to help staff recognize these transactions.

## 12-02 PROCUREMENT PROCEDURES (MATERIAL WEAKNESS)

CONDITION

During our test work for contracts and procurement procedures, we noted an instance in which a vendor was paid for services in excess of the small purchases amount without going through the proper procurement procedures and bidding process.

CRITERIA

According to the College's Administrative Services Policy 1-6, the College shall attempt to procure materials and services for the greatest value to the College and shall do so in accordance with the Procurement Code. 13-1-129 NMSA 1978 (Procurement under existing contracts) allows the purchasing agent to contract for services without the use of competitive sealed bids as follows: (1) at a price equal to or less than the contractor's current federal supply contract price (GSA), providing the contractor has indicated in writing a willingness to extend such contractor pricing, terms and conditions to the state agency or local public body and the purchase order adequately relied upon, and (2) the central purchasing office shall retain for public inspection and for the use of auditors a copy of each federal supply contractor state purchasing agent price agreement relied upon to make purchases without seeking competitive bids or proposals.

CAUSE

The College effectively overrode existing purchasing controls by allowing a vendor to begin work without validating a GSA contractor number. Once the College discovered that its contractor had not actually provided a GSA number, but rather an irrelevant DUNS number, the College did not immediately stop the contractor from performing additional work.

EFFECT

The College was not in compliance with the College and State Procurement Code, and paid the vendor in question approximately $191,000 without requiring procurement under existing contracts or competitive bids. There is an increased risk of error or fraud in the financial records. Also, the College may not have procured materials and services at the greatest value to the College.

RECOMMENDATION

We suggest the College ensure that existing procurement policies and procedures are followed.

MANAGEMENT RESPONSE

The College has strengthened small-project procedures by adding a pre-project approval process. In addition to the Vice President for Finance and Administration, all projects will be reviewed and approved by the Assistant Vice President for Business Services and Purchasing, the accounting staff responsible for the Plant Fund, and the Director of Physical Plant.

## 12-03 FINANCIAL CLOSE AND REPORTING (MATERIAL WEAKNESS)

CONDITION

The financial close and reporting process is not well established and documented, including the identification and updating of internal and external financial reporting requirements and deadlines; the methodology, format, and frequency of required analyses; roles and responsibilities; changes and analyses of financial information and requirements. This includes a process to reconcile balance sheet accounts to the supporting detail. Capital assets, cash, grants receivables, other receivables, deferred revenue, and fund balance were still being reconciled at the time of the audit field work in November 2012.

CRITERIA

Sound internal controls include procedures to ensure financial closing and reporting processes are complete and lead to accurate and timely financial reporting.

CAUSE

There are not sufficient formal policies and procedures in place over financial close and reporting.

EFFECT

There is an increased risk of error or fraud in the financial records.

RECOMMENDATION

We recommend that the College develop policies and procedures to outline the requirements, timelines and responsibilities over the financial control and reporting process.

MANAGEMENT RESPONSE

The College recently developed a new integrated leadership system that provides operational management/oversight through the use of councils. As a part of this structure, a College Administration and Services Council has been established. A sub-committee reporting to this council, The Committee on Policy, Procedures and Internal Controls, has been given the permanent assignment of review and oversight of administrative and accounting procedures. The Committee on Policy, Procedure, and Internal Controls, along with the Vice President for Finance and Administration, will develop and document year-end procedures. The Controller will report progress on the year-end close to this committee. Additionally, a status of year end close and progress of the audit will be reported to the Governing Board monthly until the audit is complete.

## 12-04 INDIVIDUAL FUND TRIAL BALANCES (SIGNIFICANT DEFICIENCY)

CONDITION

We noted that even though the Banner software Trial Balance for all individual funds netted to zero, 27 individual funds did not balance to zero.

CRITERIA

Fund accounting requires that a fund trial balance net to zero.

CAUSE

The monthly close process is not well established and documented, including the methodology, format, and frequency of required analyses; roles and responsibilities; changes and analyses of financial information and requirements. This includes a process to ensure that all fund trial balances net to zero.

EFFECT

A fund trial balance which does not net to zero means any or all of the following account categories in an individual fund are misstated: assets, liabilities, fund balance, revenues, expenditures, and transfers.

RECOMMENDATION

The College must develop a monthly close process to ensure that all individual fund trial balances net to zero.

MANAGEMENT RESPONSE

The college will be working with the software provider to see how this can be corrected. It is likely to be an issue with the original software conversion. It will require one-sided entry override.

## 12-05 RECORDING PRIOR PERIOD ADJUSTMENTS AND FUND RECONCILIATIONS (MATERIAL WEAKNESS)

CONDITION

We noted that although the College recorded prior period adjustments that were approved by the appropriate level of management, a reconciliation of the College's June 30, 2012 fund balances prior to the close of the June 30, 2011 audited balances was not prepared.

CRITERIA

The College's beginning fund balances should be reconciled to prior year audited balances.

CAUSE

Those responsible for fund balance reconciliations did not comply with existing internal controls in place requiring the timely reconciliation of fund balances.

EFFECT

There is an increased risk of error or fraud in the financial records that may not be detected on a timely basis.

RECOMMENDATION

We suggest that the College ensure that existing internal controls requiring timely fund balance reconciliations be followed.

MANAGEMENT RESPONSE

Business office procedures allowed journal entries to be entered into the system under a peer-review process. The process has been strengthened to require Controller review on all journal entries.

## 12-06 PAYROLL DIRECT DEPOSIT RECONCILIATIONS (SIGNIFICANT DEFICIENCY)

CONDITION
During our payroll test work, we noted that the employee direct deposit amounts were deducted from the bank statement in an aggregate amount which was not reconciled to the ACH upload report, Evisions check register, and Banner payroll check register.

CRITERIA
Proper internal control structure requires 1) an adequate segregation of duties among those who prepare payroll checks and review and authorize electronic payroll disbursements, and that 2) payroll check registers (including those for direct deposits) are reviewed after processing, reconciled to control totals, and approved by an appropriate level of management.

CAUSE
There were not reconciliation internal controls in place to ensure the reconciliation process on a timely basis.

EFFECT
There is an increased risk of error or fraud in the financial records that may not be detected on a timely basis.

RECOMMENDATION
Prior to ACH direct deposit file upload, the Evisions payroll check register should be reconciled to the Banner payroll check register. In addition, we recommend that the College implement policies and procedures to ensure at least one level of independent review (outside of the payroll office) of the payroll and check register reconciliations.

MANAGEMENT RESPONSE
Reconciliation procedures have been developed. A periodic bank reconciliation check will be conducted by the Vice President's office, quarterly, to ensure that procedures are being followed.

## 12-07 GENERAL OBLIGATION BOND CONTINUING DISCLOSURE (SIGNIFICANT DEFICIENCY)

CONDITION

The College did not provide annual continuing disclosure information for the 2007, 2009 and 2010 general obligation bonds for the year ended June 30, 2011 by March 31, 2012. Subsequent to March 31, 2012 only the audited financial statement has been posted to the Municipal Securities Rulemaking Board (MSRB) site.

CRITERIA

The 2007, 2009 and 2010 General Obligation Bond Official Statements require continuing disclosure information annually. The College will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the College of the general type included in the Official Statement, under the headings "DEBT AND OTHER FINANCIAL OBLIGATIONS - General Obligation Debt" and "- Statement of Estimated Direct and Overlapping Debt"; "TAX BASE - Analysis of Assessed Valuation," "- History of Assessed Valuation," "- Major Taxpayers," " - Mill Levy Detail" and "- Tax Collections on Locally Assessed and Centrally Assessed Property"; "THE COLLEGE AND THE DISTRICT - Enrollment" and "- Tuition and Fees"; and "FINANCES OF THE EDUCATIONAL PROGRAM - Operating Budget." The College will update and provide this information by no later than March 31 of each year. The College will provide the updated information to the Municipal Securities Rulemaking Board Electronic Municipal Market Access System ("EMMA").

CAUSE

There are no formal internal controls in place to ensure that the general obligation bond continuing disclosure information is provided timely by March 31 of each year.

EFFECT

The College is not in compliance with the 2007, 2009 and 2010 general obligation bond official statement.

RECOMMENDATION

We suggest that the College implement policies and procedures to ensure that the general obligation continuing disclosure information is updated and provided timely by March 31 of each year.

MANAGEMENT RESPONSE

The college relies upon a third party bond consultant to file the report. A check-up procedure will be added to the year-end close process.

## 12-08 AUTOMATIC ADJUSTING JOURNAL OFFSET BY FUND (MATERIAL WEAKNESS)

CONDITION

We noted that the accounting staff records adjusting journal entries between fund numbers in which each fund's debits were not offset by balancing credits. The Banner software system automatically balanced such an entry by posting either a debit or credit to each fund's cash interfund asset account. However, the automatic Banner Software offset may not have been management's intended balancing entry.

CRITERIA

Fund accounting requires adjusting journal entries to have equal debits and credits by fund.

CAUSE

The adjusting journal entry process is not well established and documented, including the methodology of the Banner software system automatic fund balancing offset. Management and staff were not aware of the requirement for a balanced fund entry and the implications of an unbalanced fund adjusting journal entry.

EFFECT

Any or all of the following account categories in an individual fund might be misstated: assets, liabilities, fund balance, revenues, expenditures, and transfers.

RECOMMENDATION

The College must train staff to require all adjusting journal entries contain equal debits and credits by fund, and when a supervisor approves an entry with initials on the source document, the review process must include that fund debits and credits are equal.

MANAGEMENT RESPONSE

The VP for Finance and Administration has developed training to ensure that the staff understands cash inter-fund aspects of the Banner system.

## 12-09 PLANT CAPITAL FUND ACCOUNTING (MATERIAL WEAKNESS)

CONDITION
The restricted and unrestricted plant capital asset fund balances were not equal to the capital asset cost balances net of depreciation. In addition, depreciation expense did not agree to detail schedules.

CRITERIA
The College has an accounting policy that both restricted and unrestricted capital assets be maintained in separate funds which include only the original capitalized cost and related accumulated depreciation with a matching offset to fund balance. The original cost and accumulated depreciation should agree to detail depreciation schedules.

CAUSE
The College implemented a new capital asset depreciation software system during the year. During the conversion process, management did not monitor the impact of journal entries made to plant capital asset funds or prior period adjustments to fund balance in accordance with the College's policy that restricted and unrestricted capital assets be maintained in separate funds which include only the original capitalized cost and related accumulated depreciation with a matching offset to fund balance.

EFFECT
Management did not ensure that plant capital assets were accounted for in accordance with the College's accounting policy.

RECOMMENDATION
We recommend: (1) Staff originating plant capital asset fund journal entries be trained about the College's plant capital asset accounting policy, and (2) the College ensure that management responsible for approving journal entries to the plant capital asset fund monitor the fund on a timely basis to determine that the plant capital asset fund is presented in accordance with the College's accounting policy.

MANAGEMENT RESPONSE
Current procedures are allowed to be entered into the system under a peer-review process. The process has been strengthened to required Controller review on all journal entries.

 

## 12-10 GRANT MODULE AUTOMATIC JOURNAL ENTRY MONITORING (MATERIAL WEAKNESS)

CONDITION
During the year the College implemented a new grants module of the Banner software system. The general ledger maintained a $4,102,731 Grants Refund Clearing asset account balance and a $3,386,462 Unbilled A/R-Contracts/Grants liability account balance as of June 30, 2012. Management did not monitor why there were such large balances on a monthly basis, and adjust the general ledger accordingly.

CRITERIA
Proper internal control structure requires an appropriate segregation of duties so as to provide reasonable assurance with regard to the reliability of financial reporting effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

CAUSE
The College implemented a grants module of the Banner software system during the year. During the conversion process, management did not document and monitor the impact of automatic Banner software journal entries made to the general ledger.

EFFECT
Management did not ensure grant receivables, deferred revenue and revenue were properly stated, and material adjustments were recorded during audit fieldwork in November 2012.

RECOMMENDATION
We recommend the College ensure that when a new Banner software module is implemented, management and staff understand the automatic entries posted by the Banner software system. In addition, management should developed policies and procedures to ensure that new accounts in the general ledger will be monitored on a monthly basis.

MANAGEMENT RESPONSE
A plan for implementation of any new software module will be developed by the Controller in conjunction with the software provider. The plan will be approved by the Committee on Policy, Procedure, and Internal Controls.

## 12-11 ADJUSTING JOURNAL ENTRY APPROVAL (SIGNIFICANT DEFICIENCY)

CONDITION

Based on our test work of ninety-one adjusting journal entries we noted the following:

- Seven instances in which the adjusting journal entry was not properly approved by management.

CRITERIA

Proper internal control structure requires an appropriate level of monitoring over the adjusting journal entry process.

CAUSE

Those responsible for approving adjusting journal entries did not comply with existing internal controls in place requiring the proper approval of adjusting journal entries.

EFFECT

The lack of journal entry review may allow improper adjustments to occur.

RECOMMENDATION

We recommend the College ensure that policies and procedures outlining proper journal entry approval are followed.

MANAGEMENT RESPONSE

Business Office procedures allowed journal entries to be entered into the system under a peer-review process. The process has been strengthened to required Controller review on all journal entries.

## 12-01F GROW: REALIZED AND UNREALIZED GAINS AND LOSSES (SIGNIFICANT DEFICIENCY)

CONDITION
GROW does not reconcile realized and unrealized gain/losses to separate accounts on the general ledger.

CRITERIA
In order to complete the Statement of Cash Flows on the direct method and the Internal Revenue Service Form 990 filing, (1) the composition of realized gains/losses by proceeds and cost basis must be maintained and reconciled to the general ledger, and (2) the unrealized gains/losses must be maintained and reconciled to the general ledger.

CAUSE
The consolidated monthly performance evaluation statement, provided by GROW's investment advisor, does not contain a detail of current month and year-to-date realized gains/losses.

EFFECT
GROW does not maintain its general ledger to ensure the efficient and correct preparation of the Statement of Cash Flows on the direct method and the Internal Revenue Service Form 990 filing.

RECOMMENDATION
GROW should request that its investment advisor provide statements which include current month and year-to-date realized gains/losses.

MANAGEMENT RESPONSE
We are meeting with First Santa Fe Advisors, our investment advisors, in January, 2013 to discuss the reporting required by the Auditors in order to complete the statement of cash flows so that realized and unrealized gains and losses will be maintained and reconciled to the general ledger.

## III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

***Federal program information:***
**Funding Agency: U.S. Department of Education**
**Title: Student Financial Aid Cluster**
**CFDA Number: 84.007, 84.033, 84.063, 84.268**
**Award Year: 2012**

### 12-12 PELL GRANT CALCULATION (SIGNIFICANT DEFICIENCY AND NON-COMPLIANCE)

CONDITION
During our test work over student eligibility, we could not recalculate the Pell grant award for one student (out of 40 tested).

CRITERIA
A student's enrollment status, along with Cost of Attendance and EFC are used to calculate the Pell award, using the appropriate full-time or part-time Payment or Disbursement schedules (based on credit hours). (34 CFR 690.62; 690.63; 690.80).

CAUSE
On May 29, 2012 student financial aid staff performed a processing error in the Banner system. This error caused the original attempted hours to be deleted for those students who dropped a class before the census date (for classes starting the second half of the Spring 2012 semester). In this case, the student received the Pell amount corresponding to a full-time load (12 credit hours); however, upon performing the recalculation in our test work, we were unable to recalculate the original award amount and could only recalculate an award based on a 3/4-time load (9 credit hours). Due to the processing error noted above, the audit trail of the dropped class was deleted.

EFFECT
There was not a complete audit trail for students who dropped a class before the census date for classes starting the second half of the Spring 2012 semester.

RECOMMENDATION
Establish internal controls and procedures to prevent the ability of the College's staff to delete audit trails and credit hour information from the Banner system. The College should also consider conducting random file reviews to ensure that the appropriate enrollment status was used in determining Pell calculations.

MANAGEMENT RESPONSE
A custom report has been created to allow for review.

***Federal program information:***
**Funding Agency: U.S. Department of Labor**
**Title: Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (American Recovery and Reinvestment Act)**
**CFDA Number: 17.275**
**Award Year: 2012**
**Pass Through Entity: New Mexico Department of Workforce Solutions**

## 12-13 ALLOWABLE COSTS - ACCOUNT MISCODE (SIGNIFICANT DEFICIENCY AND NON-COMPLIANCE)

CONDITION
During our testing of equipment, we noted one transaction that was miscoded to the wrong account number. The transaction was incorrectly coded to equipment and should have been coded to contractual agreements, both of which are allowable under the grant agreement.

CRITERIA
OMB Circular A-21, "Cost Principles for Educational Institutions" (2 CFR part 220) requires that costs be correctly charged as to account, amount, and period.

CAUSE
When the invoice was received by the department, the department head approving the invoice manually wrote the wrong account number at the top of the invoice. When the business office went to pay the invoice, it was coded using the incorrect account number written on the invoice, instead of the initial account number used to set up the purchase order.

EFFECT
The College effectively overrode existing controls by allowing an account number to be changed after it had already been established on the purchase order. In addition, the account miscoding resulted in an incorrect coding of expenditures.

RECOMMENDATION
We recommend that the College reevaluate internal controls over invoice processing. In particular, the College needs to address how an invoice was able to be miscoded after the initial purchase order established the correct account number. Personnel responsible for reviewing invoices and matching invoices with purchase orders needs to ensure that the account number, amount, and period agree.

MANAGEMENT RESPONSE
Since the audit, all invoices have been matched with corresponding purchase orders. Personnel are not allowed to write an account code on the invoice. The only items allowed to be written on PO is the PO number if it is not already present and a signature from the project director approving the invoice.

***Federal program information:***
**Funding Agency: U.S. Department of Labor**
**Title: Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (American Recovery and Reinvestment Act)**
**CFDA Number: 17.275**
**Award Year: 2012**
**Pass Through Entity: New Mexico Department of Workforce Solutions**

## 12-14 PARTICIPANT FILES (SIGNIFICANT DEFICIENCY AND NON-COMPLIANCE)

CONDITION
During our follow-up testing of 20 participant files, we noted the following:

- One instance in which a participant file had a certification of completion in the file, but after follow-up noted that the participant never actually attended the course.
- Two instances in which a participant file did not have the required certificate of completion in the file.
- Six instances in which a participant had a certificate of completion printed out, but the certificate was not properly filed in the participant file.

CRITERIA
According to the grant agreement, "Curricula designers will provide program participants with an industry recognized credential where such credentials are available and relevant. In the interim, a Certificate of Completion will be provided to each student that completes a module." After a program review was done by the pass-through entity, they required action of the College to ensure a copy of the required certificate is placed in each participant binder after course completion.

CAUSE
Personnel responsible for maintaining participant binders are not timely filing the necessary certificates upon course completion.

EFFECT
The College is not in compliance with the provisions of the grant agreement pertaining to participant files.

RECOMMENDATION
The College should periodically perform a thorough review of all participant binders to ensure that required certificates and other documentation are properly filed in accordance with the grant agreement.

MANAGEMENT RESPONSE
All participant files have been reviewed to ensure that all required documentation and certificates are properly filed in accordance with the grant agreement. In addition internal processes have been modified and improved to make the filing of certificates a standardized operating procedure after the completion of each class.

## IV. OTHER MATTERS AS REQUIRED BY NM STATUTE 12-6-5, NMSA 1978

### 12-15 HUMAN RESOURCES - I-9'S (OTHER)

CONDITION

During our test work of compliance with payroll disbursements, we noted the following instances of non-compliance:

- One employee, out of the 40 employees sampled, did not have an I-9 completed. The I-9 was not completed in the "employer certification" section and was missing the signature, date, name, title and address of the employer authorized representative.

CRITERIA

The College has established policies and procedures that require the information within the files be complete and accurate.

CAUSE

Those responsible for I-9 preparation did not comply with existing internal controls in place requiring the proper completion of Form I-9.

EFFECT

The College was not in compliance with their payroll policies and procedures and government requirements.

If we extrapolate the error rate of our findings to the overall population of our sample, it is possible that 19 employees will have an incomplete I-9 on file.

RECOMMENDATION

Personnel responsible for the employee files should review relevant documentation to ensure that all forms are properly completed and filed.

MANAGEMENT RESPONSE

HR personnel will review the relevant documentation to ensure that all forms are properly completed and filed.

## 12-16 DISPOSITION OF PROPERTY INCLUSION IN GOVERNING BOARD MINUTES (OTHER)

CONDITION
The College did not include a copy of the official finding and proposed disposition of the property sought to be disclosed of as part of the official minutes of the governing authority.

We were unable to verify the results of the annual physical inventory of fixed assets for the fiscal year ended June 30, 2012. The College was in process of completing the inventory, but had not completed the annual physical inventory for the fiscal year ended June 30, 2012 as of the close of fieldwork of the audit.

CRITERIA
Per NMSA sections 13-6-1(C), a copy of the of the official finding and proposed disposition of the property sought to be disposed of shall be made a permanent part of the official minutes of the governing authority and maintained as a public record subject to the Inspection of Public Records Act.

Per NMAC 2.20.1.16.E ANNUAL INVENTORY: The results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the agency. In the process of conducting their fieldwork, the state auditor or independent public accountant under a contract approved by the state auditor may test the correctness of the inventory by generally accepted auditing procedures.

CAUSE
The governing board approval of the of the disposition of assets list was not included in the official minutes of the governing board.

The physical inventory of fixed assets for the year ended June 30, 2012 was not completed and approved by the completion of the fieldwork of the audit.

EFFECT
The College is not in compliance with NMSA sections 13-6-1(C).

We were unable to test the governing boards certification as to the correctness of the physical inventory for the fiscal year ended June 30, 2012.

RECOMMENDATION
We suggest that the College implement policies and procedures to ensure that the governing board approval of the asset disposition list is included in the official minutes of the governing board.

We suggest that the College timely completes the physical inventory of fixed assets at the close of each fiscal year.

MANAGEMENT RESPONSE
A procedure has been put in place whereby the general services will not dispose of property unless they have the appropriate board minutes in their files.

## 12-17 BUDGETARY COMPARISONS (OTHER)

CONDITION

At June 30, 2012, we noted that the College overspent its approved expenditures budget in the following categories:

| | | |
|---|---|---|
| Student social and cultural activities | $ | 8,650 |
| Internal services | | 10,420 |
| Student aid, grants stipends and independent operations | | 182,894 |
| Capital outlay | | 6,922,337 |

CRITERIA

Per statute 5.3.4.10 NMAC, total expenditures may not exceed amounts shown in the approved budgets. Adequate internal controls to minimize budget overspending should ensure that budgets are not exceeded by any amount. The point in the disbursement cycle in which the transaction should be cancelled if budget is not available is at the beginning with the purchase request.

CAUSE

The College did not submit budget adjustment requests to the Higher Education Department and therefore did not receive proper approvals sufficient to cover expenditures.

EFFECT

The College has not complied with budgetary compliance requirements as set out in the New Mexico Administrative Code. This may impact future funding.

RECOMMENDATION

We recommend that College budget controls and processes be strengthened to ensure that budgeted amounts are not overspent and budget adjustment requests are completed on a timely basis.

MANAGEMENT RESPONSE

The college will improve its mid-year review for the plant fund projects and build in contingency into the budget.

## 12-18 LATE AUDIT REPORT (OTHER)

CONDITION
The College issued the audit report subsequent to the November 15, 2012 deadline required by the State Auditor.

CRITERIA
State Audit Rule 2.2.2.9(A), NMAC states that Colleges and Universities are required to submit the audit report for the year ended June 30, 2012 on or before November 15, 2012.

CAUSE
The financial close and reporting process is not well established and documented, including the identification and updating of internal and external financial reporting requirements and deadlines; the methodology, format, and frequency of required analyses; roles and responsibilities; changes and analyses of financial information and requirements. This includes a process to reconcile balance sheet accounts to the supporting detail. Capital assets, cash, grants receivables, other receivables, deferred revenue, and fund balance were still being reconciled at the time of the audit field work in November 2012.

EFFECT
The College is not in compliance with State of New Mexico State Auditor requirements.

RECOMMENDATION
The College must ensure that all future audit reports are filed in a timely manner.

MANAGEMENT RESPONSE
The college recently developed a new integrated leadership system that provides operational management/oversight through the use of councils. As a part of this structure a College Administration and Services Council has been established. A sub-committee reporting to this council, The Committee on Policy, Procedures and Internal Controls, has been given the permanent assignment of review and oversight of administrative and accounting procedures. The Committee on Policy, Procedure, and Internal Controls, along with the Vice President for Finance and Administration, will develop and document year-end procedures. The Controller will report progress on the year-end close to this committee. Additionally, a status of year end close and progress of the audit will be reported to the Governing Board monthly until the audit is complete.

## 12-02F GROW: LATE AUDIT REPORT (OTHER)

CONDITION
GROW issued the audit report subsequent to the November 15, 2012 deadline required by the State Auditor.

CRITERIA
State Audit Rule 2.2.2.9(A), NMAC states that Colleges and Universities are required to submit the audit report for the year ended June 30, 2012 on or before November 15, 2012.

CAUSE
Due to the Santa Fe Community College financial statement for the year ended June 30, 2012 being submitted late, GROW was unable to submit the June 30, 2012 audit report on a timely basis.

EFFECT
GROW is not in compliance with State of New Mexico State Audit Rule.

RECOMMENDATION
GROW must ensure that all future audit reports are filed in a timely manner. GROW should ensure this process is timely in the future through communication with the State Auditor.

MANAGEMENT RESPONSE
The circumstance of the late filing was beyond our control due to the College filing late.

A closing conference was held on December 14, 2012, to discuss the audit report and current and prior year auditor's comments. The parties agreed to the factual accuracy of the comments contained herein. In attendance were the following individuals:

*Representing the Governing Board of Santa Fe Community College*

| | |
|---|---|
| Dr. Andrea Bermudez (By Telephone) | Board Chair |
| Mr. Chris Abeyta | Vice Chair |
| Mr. Bruce R. Besser (By Telephone) | Secretary |
| Ms. Linda Siegle (By Telephone) | Member |
| Ms. Carole Brito (By Telephone) | Member |

*Representing Santa Fe Community College*

| | |
|---|---|
| Dr. Ana "Cha" Guzman | President |
| Meridee Walters | Vice President for Finance and Administration |
| Betsye Ackerman | Controller |
| Dr. Ron Liss | Vice President for Learning |
| Dr. Tina Ludutsky-Taylor | Assistant to the President |
| Janet Wise | Director of Marketing and Public Relations |
| Theresa Garcia | Administrative Assistant to the Governing Board |

*Representing Abeyta, Weiner & Cherne, P.C.*

| | |
|---|---|
| Amy C. Cherne | Principal |
| Sean S. Weiner | Principal |

**Disclosure required by 2.2.2.8 J (4) NMAC - Financial Statement Presentation**

The financial statements were prepared with the assistance of Abeyta, Weiner & Cherne, P.C. from the books and records of Santa Fe Community College.