

**NORTHERN NEW MEXICO COLLEGE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014**

NORTHERN NEW MEXICO COLLEGE

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NORTHERN NEW MEXICO COLLEGE

Official Roster

June 30, 2014

Ex Officio Members:

The Honorable Susana Martinez
Hanna Skandera
Dr. Jose Garcia

Governor of the State of New Mexico
Cabinet Secretary, Public Education
Cabinet Secretary, Higher Education Department

Board of Regents

Appointed Members:

Rosario (Chayo) Garcia
Alfred Herrera
Kevin F. Powers
Donald Martinez, Jr.
Michael Branch

President
Vice President
Treasurer
Secretary
Member

Principal Administrative Officials

Nancy "Rusty" Barcelo
Domingo Sanchez III

President
Vice-President for Finance and Administration

REPORT OF INDEPENDENT AUDITORS

The Board of Regents
Northern New Mexico College
and
Mr. Hector Balderas, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northern New Mexico College (the "College") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison schedule presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

The Board of Regents
Northern New Mexico College
and
Mr. Hector Balderas, New Mexico State Auditor

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparisons for the year ended June 30, 2014, present fairly, in all material respects in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

The Board of Regents
Northern New Mexico College
and
Mr. Hector Balderas, New Mexico State Auditor

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements and budgetary comparison schedule. The accompanying Schedule of Deposit Accounts, Schedule of Pledged Collateral, and Schedule of Collaborative Partnerships, as required by the New Mexico State Audit Rule and the Schedule of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Deposit Accounts, Schedule of Pledged Collateral, Schedule of Collaborative Partnerships and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Deposit Accounts, Schedule of Pledged Collateral, Schedule of Collaborative Partnerships and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
November 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN NEW MEXICO COLLEGE
Management's Discussion and Analysis
For The Year Ended June 30, 2014

Overview of the Financial Statements

For financial reporting purposes, Northern New Mexico College (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.

This report consists of Management's Discussion and Analysis, the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the College and its component unit, the Northern New Mexico College Foundation (the Foundation). This Management's Discussion and Analysis (MD&A) focuses on the College and not the Foundation.

An agreement between the Foundation and the College was entered into on March 12, 1997. This agreement formalizes the relationship between the Foundation and the College and establishes the sole purpose of the Foundation as raising supplementary funds for the College.

The Management's Discussion and Analysis of the College's financial statements provides an overview of its financial activities as of and for the year ended June 30, 2014.

Financial Highlights

The College's assets exceeded its liabilities at the close of the June 30, 2014 fiscal year by \$36,061,755 (net position).

Due to decreased operational spending in response to decreased tuition revenues and the impact of capital spending, the College's net position increased during the year by \$1,397,803 from the previous year.

The Foundation's cash and investments reflect \$3,372,803 at June 30, 2014, some of which are with local banking institutions.

The College's cash and cash equivalents reflect \$128,194 at June 30, 2014 all of which are with local banking institutions.

NORTHERN NEW MEXICO COLLEGE
Management's Discussion and Analysis
For The Year Ended June 30, 2014

The Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report the College's net position and how it has changed. Net position, the difference between assets and liabilities, is one way to measure the College's financial health or position. Over time, increases or decreases in the College's net position are an indicator of whether its financial health is improving or deteriorating. Non-financial factors are also important to consider, including student enrollment and the condition of campus facilities. These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following table summarizes the College's assets, liabilities, and net position as of June 30:

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 2,469,861	\$ 2,078,272
Capital assets	34,495,800	32,888,544
Other non-current assets	<u>2,973,682</u>	<u>2,593,380</u>
Total Assets	<u>\$ 39,939,343</u>	<u>\$ 37,560,196</u>
Liabilities		
Current liabilities	<u>\$ 3,877,588</u>	<u>\$ 2,896,244</u>
Total Liabilities	<u>3,877,588</u>	<u>2,896,244</u>
Net Position		
Net investment in capital assets	34,495,800	32,888,544
Restricted	3,273,037	3,027,567
Unrestricted (deficit)	<u>(1,707,082)</u>	<u>(1,252,159)</u>
Total Net Position	<u>36,061,755</u>	<u>34,663,952</u>
Total Liabilities and Net Position	<u>\$ 39,939,343</u>	<u>\$ 37,560,196</u>

NORTHERN NEW MEXICO COLLEGE
Management's Discussion and Analysis
For The Year Ended June 30, 2014

Analysis of Net Position

As noted earlier, the net position may serve as a useful indicator of the College's financial position. For the College, assets exceeded liabilities by \$36,061,755 at the close of the fiscal year. The net position consists of 96% capital assets (e.g. land, buildings, and equipment) or \$34,495,800. The College uses these capital assets in its mission to provide postsecondary educational services to the College's service area; consequently, these assets are not available for future spending.

The following table summarizes the College's revenues, expenses, and changes in net position for the years ended June 30:

Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenues	\$ 11,934,225	\$ 14,149,919
Operating Expenses	23,954,830	27,173,365
Operating Loss	(12,020,605)	(13,023,446)
Non-Operating Revenues	11,455,496	10,798,912
Other Non-Operating Revenues	1,962,912	1,065,316
Increase (Decrease) in Net Position	<u>\$ 1,397,803</u>	<u>\$ (1,159,218)</u>

Analysis of Changes in Net Position

The College's net position increased by \$1,397,803 from fiscal year 2013 to fiscal year 2014 due to a general decrease in spending as a response to decreased revenues and from the impact of capital acquisitions.

NORTHERN NEW MEXICO COLLEGE
Management's Discussion and Analysis
For The Year Ended June 30, 2014

Operating Revenues

The following table summarizes the College's operating revenues for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Student tuition and fees	\$ 4,791,000	\$ 4,043,930
Tuition discounts and allowance	(3,307,662)	(3,060,100)
Federal grants and contracts	8,089,985	9,213,308
State grants and contracts	1,234,529	775,640
Other grants and contracts	148,044	284,840
Scholarships and scholarship contributions	195,067	581,230
State land and permanent fund income	161,714	138,659
Sales and service of auxiliary enterprises	509,760	1,183,542
Other operating revenues	111,788	988,870
Total Operating Revenues	<u>\$ 11,934,225</u>	<u>\$ 14,149,919</u>

Operating Expenses

The following table summarizes the College's operating expenses for the years ended June 30. There were no unexpected changes in operating expenses.

	<u>2014</u>	<u>2013</u>
Instruction	\$ 7,264,650	\$ 8,427,315
Academic support	789,748	824,844
Student services	2,019,695	2,322,205
Institutional support	4,788,357	4,835,478
Scholarships	-	640,540
Public service	411,762	1,118,999
Student aid grants and stipends	1,974,152	2,160,816
Plant	257,626	217,411
Operations and maintenance support	1,881,790	1,942,125
Research	40,516	117,906
Internal service	1,301,721	1,146,354
Student activities	96,773	55,158
Auxiliary enterprises	960,547	1,363,210
Athletics	650,832	609,589
Depreciation	1,516,661	1,391,415
Total Operating Expenses	<u>\$ 23,954,830</u>	<u>\$ 27,173,365</u>

NORTHERN NEW MEXICO COLLEGE
Management's Discussion and Analysis
For The Year Ended June 30, 2014

Non-Operating Revenues and Expenses

The following table summarizes the College's non-operating revenues and expenses for the years ended June 30:

	<u>2014</u>	<u>2013</u>
State appropriations	\$ 11,071,165	\$ 10,525,900
Investment income (loss)	384,331	273,012
Total Non-Operating Revenues	<u>\$ 11,455,496</u>	<u>\$ 10,798,912</u>

Other Non-Operating Revenues

The following table summarizes the College's other non-operating revenues for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Capital appropriations	\$ 1,962,912	\$ 1,065,316
Total Other Non-Operating Revenues	<u>\$ 1,962,912</u>	<u>\$ 1,065,316</u>

Capital Assets

At June 30, 2014 and 2013, the College had the following amounts invested in capital assets net of accumulated depreciation:

	<u>2014</u>	<u>2013</u>
Paintings	\$ 13,500	\$ 13,500
Construction in progress	1,873,129	-
Land and improvements	6,880,864	6,880,864
Automobiles	257,499	203,730
Buildings	50,764,794	49,893,701
Furniture, fixtures and equipment	8,354,836	8,059,929
Library books	3,121,191	3,094,501
	71,265,813	68,146,225
Accumulated depreciation	<u>(36,770,013)</u>	<u>(35,257,681)</u>
Total Capital Assets, Net	<u>\$ 34,495,800</u>	<u>\$ 32,888,544</u>

Major capital expenditures during the year ended June 30, 2014 include additions to the both campuses for safety and security enhancements, and remodeling of the administration building for greater utilization of available space.

NORTHERN NEW MEXICO COLLEGE
Management's Discussion and Analysis
For The Year Ended June 30, 2014

Budgetary Highlights

The final budgeted revenues and expenses decreased roughly \$4 million from the original budgeted amounts due to an early recognition of decreased enrollment, lower grant spending and a curtailment of auxiliary activity.

Economic Outlook

The College is largely dependent on state appropriations and federal and state grants for its operating funds. The state economic outlook is expected to remain flat with state appropriations seeing little change.

Contacting Northern New Mexico College's Financial Management

The financial report is designed to provide a general overview of Northern New Mexico College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Domingo Sanchez III
Vice-President for Finance and Administration
Northern New Mexico College
921 Paseo De Oate
Española, NM 87532

BASIC FINANCIAL STATEMENTS

NORTHERN NEW MEXICO COLLEGE
Statement of Net Position
As of June 30, 2014

	Primary Institution	Component Unit
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 128,194	\$ 203,391
Grants and contracts receivable	786,472	-
Student accounts receivable, net of allowance for doubtful receivables of \$1,229,904	162,350	-
Pledges receivable	-	12,517
Loan receivables	220,646	-
Other receivables	810,334	-
Due from primary institution	-	84,647
Inventories	361,865	-
Total Current Assets	2,469,861	300,555
Non-Current Assets		
Endowment investments	2,973,682	3,169,412
Capital assets, net	34,495,800	-
Total Non-Current Assets	37,469,482	3,169,412
Total Assets	\$ 39,939,343	\$ 3,469,967
Liabilities		
Current Liabilities		
Accounts payable	\$ 2,255,914	\$ 5,499
Accrued salaries and other benefits	917,320	-
Accrued compensated absences	423,756	-
Due to component unit	84,647	-
Deferred outflow	195,291	-
Deposits held in trust for others	660	-
Total Current Liabilities	3,877,588	5,499
Net Position		
Net investment in capital assets	34,495,800	-
Restricted		
Nonexpendable		
Endowments	2,973,682	3,169,412
Expendable		
Federal student loans	299,355	
Scholarships, research, instruction and other	-	295,056
Unrestricted (deficit)	(1,707,082)	-
Total Net Position	36,061,755	3,464,468
Total Liabilities and Net Position	\$ 39,939,343	\$ 3,469,967

See Notes to Financial Statements

NORTHERN NEW MEXICO COLLEGE
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	Primary Institution	Component Unit
Operating Revenues		
Tuition and fees, less tuition discounts and allowances of \$3,307,662	\$ 1,483,338	\$ -
Federal grants and contracts	8,089,985	-
State and local grants and contracts	1,234,529	-
Other grants and contracts	148,044	-
Scholarship and scholarship contributions	195,067	673
State land and permanent fund income	161,714	-
Sales and services of auxiliary enterprises	509,760	-
Other	111,788	257,793
Total Operating Revenues	11,934,225	258,466
Operating Expenses		
Instruction	7,264,650	-
Academic support	789,748	-
Student services	2,019,695	-
Institutional support	4,788,357	188,655
Scholarships	-	117,739
Public service	411,762	-
Student aid grants and stipends	1,974,152	-
Plant	257,626	-
Operations and maintenance support	1,881,790	-
Research	40,516	-
Internal service	1,301,721	-
Student activities	96,773	-
Auxiliary enterprises	960,547	-
Athletics	650,832	-
Depreciation	1,516,661	-
Total Operating Expenses	23,954,830	306,394
Operating Loss	(12,020,605)	(47,928)
Non-Operating Revenues		
State appropriations	11,071,165	-
Investment income	384,331	174,949
Net Non-Operating Revenues	11,455,496	174,949
Other Non-Operating Revenues		
Capital appropriations	1,962,912	-
Net Other Non-Operating Revenues	1,962,912	-
Increase in Net Position	1,397,803	127,021
Net Position, Beginning of Year	34,663,952	3,337,447
Net Position, End of Year	\$ 36,061,755	\$ 3,464,468

See Notes to Financial Statements

NORTHERN NEW MEXICO COLLEGE
Statement of Cash Flows
For The Year Ended June 30, 2014

	Primary Institution
Cash Flows From Operating Activities	
Tuition and fees	\$ 1,587,109
Grants and contracts	9,208,038
Sales and services of educational activities	509,760
Other operating receipts	414,145
Payments to employees for salaries and benefits	(14,776,460)
Payments to suppliers	(4,899,268)
Scholarships	195,067
Loans and grants issued to students and employees	(1,974,152)
Net Cash Used by Operating Activities	<u>(9,735,761)</u>
Cash Flows From Non-Capital Financing Activities	
State appropriations - non-capital	11,071,165
Investment income	4,029
Net Cash Provided by Non-Capital Financing Activities	<u>11,075,194</u>
Cash Flows From Capital and Related Financing Activities	
State appropriations - capital	1,962,912
Purchases of capital assets	(3,123,917)
Net Cash Used by Capital and Related Financial Activities	<u>(1,161,005)</u>
Net Increase in Cash and Cash Equivalents	178,428
Cash and Cash Equivalents, Beginning of Year (Overdraft)	<u>(50,234)</u>
Cash and Cash Equivalents, End of Year	<u>\$ 128,194</u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (12,020,605)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,516,661
Changes in assets and liabilities:	
Grants and contracts receivable	413,329
Student accounts receivable	86,204
Pledges receivable	9,594
Loan receivables	7,973
Other receivables	(677,849)
Due from primary institution	117,883
Inventories	(135,882)
Accounts payable	1,120,933
Accrued salaries and other benefits	(227,514)
Accrued compensated absences	30,752
Unearned revenue	22,510
Deposits held in trust for others	250
Net Cash Used by Operating Activities	<u>\$ (9,735,761)</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northern New Mexico College (the College) was created under Section 21-8-1 New Mexico Statutes Annotated (NMSA), Article XII, Section 11 of the New Mexico State Constitution. Under Article XII, Section 13 of the New Mexico Constitution, the College is governed by a five-member Board of Regents appointed by the Governor, with the advice and consent of the Senate, for six-year terms.

The College was originally founded in 1909 by the New Mexico Territorial Legislature. The original mission of the College was to teach English to Spanish speaking teachers in the area. Technical-vocational programs were instituted during the 1960's. In 1969, the College became a full-time post secondary technical-vocational school. In 1977 the New Mexico Legislature passed enabling legislation to merge the College and the Northern Branch of the University of New Mexico. In 2005, the College changed its name because it began offering four-year degree programs.

The College is a two-year and four-year degree granting institution of higher learning. The College offers degrees in biology, business administration, elementary education, engineering, environmental science, information technology, and integrative health studies. The College's main campus is located in Española, New Mexico, and its branch campus is located in El Rito, New Mexico.

Basis of Presentation. The College and the Foundation present their financial statements in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The statement presentation required by GASB 35, *Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities--an amendment of GASB 34*, provides a comprehensive entity-wide perspective of the College's assets, liabilities, and net position; revenues, expenses and changes in net position; and cash flows.

Reporting Entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The College is part of the primary government of the State of New Mexico; however, these basic financial statements are intended to present the net position, changes in net position and cash flows, where applicable, of only that portion of the State of New Mexico that is attributable to the transactions of the College and its discretely presented component unit. They do not purport to and do not, present fairly the net position of the State of New Mexico as of June 30, 2014, and the changes in net position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accompanying financial statements of the College include all funds and activities over which the College has oversight responsibility, including its discretely presented component unit the Northern New Mexico Foundation (The Foundation).

An agreement between the Foundation and the College was entered into on March 12, 1997. This agreement formalizes the relationship between the Foundation and the College and establishes the sole purpose of the Foundation as raising supplementary funds for the College.

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

Budget. The College follows the requirements established by the State of New Mexico Higher Education Department (HED) in formulating its budgets and in exercising budgetary control. It is through HED's policy that, when the appropriation has been made to the College, its Board of Regents can, in general, adopt an operating budget within the limits of available income. Additions to capital assets are reported as expenditures on the budget basis, but not on a basis required by generally accepted accounting principles (GAAP). Depreciation expense and scholarship allowance are GAAP requirements not included on the budget basis submitted to HED.

Procedures for Approval of Operating Budgets

- 1) The College will submit an original typed copy that has been approved by the College's regents to the HED's office by May 1st.
- 2) The HED meets in June and acts on approval of the budgets.
- 3) The budgets, as approved by the HED, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1st.

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

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

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and all highly-liquid investments with original maturities of six months or less. For purposes of the Statement of Cash Flows, cash and cash equivalents include demand deposits and money market accounts with an original maturity of three months or less.

Investments. The College accounts for its investments at fair value. Changes in the unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position. The College's investment policy requires that endowment and similar funds only be invested with either the State of New Mexico's Investment Council, the State Treasurer's Local Government Investment Pool, or with government-insured financial institutions with offices in New Mexico. The Foundation does have a specific investment policy, but its investments are not regulated by the State of New Mexico.

The Foundation originally records marketable securities purchased at cost. Marketable securities received by gift are recorded at estimated fair value at the date of donation. Marketable securities are carried by the Foundation at fair value. Third-party investment managers administer substantially all marketable securities of the Foundation. Gains and losses resulting from securities transactions are recorded in investment income.

The income derived from the College's undivided interest in the Land Grant Permanent Fund under the control of the State of New Mexico Commissioner of Public Lands is distributed monthly to the College.

Donor restricted endowment disbursements of the net appreciation of investments are permitted in accordance with the Uniform Management of Institutional Funds Act (46-9-1 to 46-9-12 NMSA), except where a donor has specified otherwise.

Contracts and Grants Receivable. Contracts and grants receivable are amounts due from the federal government, state and local governments or private resources in connection with reimbursement of allowable expenditures made pursuant to the College's grant awards. Contract and grant receivables are recorded net of estimated uncollectible amounts.

Student Accounts Receivable. The College records student accounts receivable at the time a student registers for classes. Provisions for uncollectible student accounts are recorded to maintain an adequate allowance for probable losses.

Loan Receivables. Loan receivables are amounts due from Perkins loans made by the College to students. Loan receivables are recorded net of estimated uncollectible amounts.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories. Inventories are generally stated at the lower of cost (average cost) or market. Cost is determined by using the retail method for bookstore items and the average cost method for other items. Inventories consist of items which are available for resale to individuals and other College departments. Departmental inventories comprised of such items as classroom and laboratory supplies, teaching materials and office supply items, which are consumed in the teaching and administrative process, are expensed when purchased.

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Pursuant to the College's capitalization policy, capital assets with a unit cost of \$5,000 or greater are capitalized. The College includes software purchased with a piece of equipment in the cost of capitalization. Software purchased for internal use is capitalized and depreciated. Renovations to buildings, infrastructure, or land improvements that significantly increase the value, increase the productivity, or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The College does not currently capitalize historical treasures or works of art.

Depreciation for the College is computed using the straight-line method over the estimated useful lives of the assets. Generally, buildings are depreciated over 40 to 50 years; infrastructure and land improvements are depreciated over 20 to 25 years; library books are depreciated over 10 years; and equipment is depreciated over 5 to 7 years. Land is not depreciated.

Compensated Absences. Accumulated annual leave is reported as a liability in the current unrestricted and restricted funds. Annual leave earned is immediately vested unless the employee is in a six month probationary period, but only 192 hours of annual leave are available for carryover at year end.

Unearned Revenue. Revenue for each academic session is reported within the fiscal year during which the session is completed. Receipts for the summer session beginning in May, and amounts charged to the accounts of students pre-registering for fall semester, are reported as unearned revenue in the accompanying financial statements.

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

Net Investment in Capital Assets. 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. The College does not have any related debt associated with its investment in capital assets.

Restricted Net Position – Nonexpendable. Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources 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.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Net Position – Expendable. Restricted expendable net position consists of resources that the College is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

Unrestricted Net Position. Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the 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 students, faculty and staff.

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

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

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) most federal, state and local grants and contracts and federal appropriations, and 3) interest on institutional student loans.

Non-operating Revenues. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That use Proprietary Fund Accounting*, and GASB 34.

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

Tuition and Fees. Student tuition and fees are recorded as revenue during the fiscal year in which the session is completed. The Board of Regents determines the rates to be charged to students.

Grant and Contract Revenue. Grant and contract revenues are recognized at the time the expenditure is incurred, if the expenditure of funds is the prime factor for determining eligibility for reimbursement.

Tax Status. As a post-secondary 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.

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation had no material unrelated business income during the year ended June 30, 2014; therefore, no provision for income taxes has been included in the financial statements.

Reclassifications. Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in current year financial statements.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2014 is as follows:

The College

Cash and Cash Equivalents:

Cash on hand	\$ 4,417
Deposits with financial institutions	123,777
	<u>128,194</u>

Investments:

Interest in State Land Grant Permanent Fund	2,973,682
Total Cash and Cash Equivalents and Investments	<u><u>\$ 3,101,876</u></u>

The Foundation

Cash and Cash Equivalents:

Deposits with financial institutions	<u>\$ 203,391</u>
--------------------------------------	-------------------

Investments:

Mutual funds	2,852,133
Real Estate Investment Trust	317,279
	<u>3,169,412</u>
Total Cash and Cash Equivalents and Investments	<u><u>\$ 3,372,803</u></u>

Investment Policy. The College utilizes certificates of deposit to invest its excess funds. The College could also invest in the short-term investment pool held by the New Mexico State Treasurer, but it has not utilized this option. The College automatically has an undivided interest in the State of New Mexico Land Grant Permanent Fund (Note 7). The Foundation's investment policy authorizes monies to be invested in equity and debt securities of United States institutions, corporate and government securities.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the College or the Foundation. The College did not have any investments at June 30, 2014, other than its undivided interest in the State of New Mexico Land Grant Permanent Fund. The credit risk for this interest was not available. Credit ratings were not available from the investments held by the Foundation.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The College and the Foundation do not have formal investment policies that limit investment maturities as a means of managing its exposure to changing interest rates. The College did not have any investments at June 30, 2014, other than its interest in the State of New Mexico Land Grant Permanent Fund. The interest rate risk for its interest in the State of New Mexico Land Grant Permanent Fund was not available.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 2. CASH AND INVESTMENTS (continued)

The Foundation's investments were not interest-bearing obligations, so they were not subject to interest rate risk at June 30, 2014.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the College's or the Foundation's investment in a single type of security. The College and the Foundation do not have a formal policy to address concentration of credit risk. The College did not have any investments at June 30, 2014, so it was not subject to any concentration of credit risk. The following represents the concentration of credit risk regarding the investments of the Foundation at June 30, 2014:

NFP Securities Inc	J7M-087777	\$ 1,186,327	37.44%
NFP Securities Inc	J7M-087778	854,402	26.96%
NFP Securities Inc	J7X-003305	668,543	21.09%
Griffin Capital	91018287	102,800	3.24%
Griffin Capital	91018283	102,800	3.24%
NFP Securities Inc	J7M-089548	73,320	2.31%
Griffin Capital	91017960	71,960	2.27%
NFP Securities Inc	J7M-089547	68,940	2.18%
KBS REITs	27412	39,719	1.25%
SunAmerica Mutual Funds		601	0.02%
Total Foundation Investments		\$ 3,169,412	100.00%

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of a depository institution failure, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party.

All deposits, investments and investments in commercial banks and savings and loan associations are collateralized as required by Section 6-10-16 to Section 6-10-17 NMSA 1978. All deposits of the College are either insured or collateralized. All deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the College's agent in the College's name. The College has no policy regarding custodial credit risk for deposits.

At June 30, 2014, the College's deposits had carrying amounts of \$123,777 and bank balances of \$138,843. Of the bank balances, \$138,843 was covered by federal depository insurance at June 30, 2014, and the rest of the deposits were collateralized with securities held by the financial institution in the College's name.

Of the investments in federal agency and corporate obligations and marketable securities, the Foundation had custodial credit risk exposure at June 30, 2014, because the related securities are held by the Foundation's brokerage firm, which is also the counterparty for these securities.

At June 30, 2014, the Foundation's deposits had carrying amounts of \$203,391 and bank balances of \$193,885. The entire amount was either covered by federal depository insurance or collateralized by securities pledged by the financial institution and also held by the financial institution.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 3. RECEIVABLES

Grants and Contracts Receivable. Amounts due from state and local agencies, as well as amounts due from the federal government represent expenditures to be reimbursed under various cost-sharing agreements. The balance at June 30, 2014 is \$786,472. It is the opinion of management that no allowance for doubtful accounts was needed at June 30, 2014.

Student Accounts Receivable. Amounts due from students are for tuition and fees not covered by financial aid. The total due was \$1,392,254 and the College has provided an allowance for doubtful receivables of \$1,229,904, for a net reported balance of \$162,350 at June 30, 2014. It is the opinion of management that this allowance is adequate.

Loans Receivable. Loans receivable consist of \$220,646 in Federal Perkins loans.

Other Receivables. Other receivables consist of \$800,556 in capital grants and \$9,778 in miscellaneous receivables.

NOTE 4. INVENTORIES

Inventory at June 30, 2014 was as follows:

Bookstore inventory	\$	343,789
Central supply inventory		8,920
Cafeteria inventory		9,156
	\$	<u>361,865</u>

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 5. CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014 as follows:

	Balance June 30, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Capital Assets Not Being Depreciated:					
Paintings	\$ 13,500	\$ -	\$ -	\$ -	\$ 13,500
Construction in progress	-	1,873,129	-	-	1,873,129
Land and improvements	6,880,864	-	-	-	6,880,864
Total Capital Assets not Being Depreciated	6,894,364	1,873,129	-	-	8,767,493
Capital Assets Being Depreciated:					
Automobiles	203,730	53,769	-	-	257,499
Building and improvements	49,893,701	871,093	-	-	50,764,794
Furniture, fixtures and equipment	8,059,929	300,679	(5,772)	-	8,354,836
Library materials	3,094,501	26,690	-	-	3,121,191
Total Capital Assets Being Depreciated	61,251,861	1,252,231	(5,772)	-	62,498,320
Total Capital Assets	68,146,225	3,125,360	(5,772)	-	71,265,813
Less accumulated depreciation for:					
Automobiles	59,323	34,763	-	-	94,086
Building and improvements	25,838,125	1,011,609	-	-	26,849,734
Furniture, fixtures and equipment	7,037,999	296,736	(4,329)	-	7,330,406
Library materials	2,322,234	173,553	-	-	2,495,787
Total Accumulated Depreciated	35,257,681	1,516,661	(4,329)	-	36,770,013
Total Capital Assets Being Depreciated, Net	25,994,180	(264,430)	(1,443)	-	25,728,307
Total Capital Assets, Net	\$ 32,888,544	\$ 1,608,699	\$ (1,443)	\$ -	\$ 34,495,800

The College does not capitalize interest expense because its additions are not financed by any debt of the College.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 6. COMPENSATED ABSENCES

A summary of changes in compensated absences for the year ended June 30, 2014 follows:

	Balance			Balance	
	June 30, 2013	Increase	Decrease	June 30, 2014	Amount Due
					Within One Year
Compensated absences	\$ 393,004	\$ 302,104	\$ (271,352)	\$ 423,756	\$ 423,756

NOTE 7. INTEREST IN STATE LAND GRANT PERMANENT FUND

State Investment Council. The College has an undivided interest in assets of the State of New Mexico Land Grant Permanent Fund (Permanent Fund) managed by the State Investment Council. At June 30, 2014, the cost and fair market value of such interest is \$1,653,769 and \$2,973,682, respectively. These investments are not categorized by custodial risk.

The College's undivided interest in the Permanent Fund was .020877% at June 30, 2014. The College's undivided interest in the Permanent Fund increased by \$380,302.

NOTE 8. OPERATING LEASES

The College leases certain office space and office equipment under lease agreements with terms ranging from one year to five years. Expenditures for operating leases for the year ended June 30, 2014 were \$167,489. Future minimum lease payments under these operating leases are as follows:

2015	\$ 151,386
2016	151,386
2017	151,386
2018	63,556
2019	63,556
	<u>\$ 581,270</u>

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Certain College full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) 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 and beneficiaries. PERA 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 PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us. The College no longer has any participants in the plan as of June 30, 2013.

Funding Policy. Plan members are required to contribute 10.67% (ranges from 6.28% to 18.15% depending upon the plan – i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The College is required to contribute 13.34% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the College are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The College's contributions to PERA for the fiscal years ended June 30, 2014, 2013 and 2012 were \$0, \$0, and \$3,194, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10. PENSION PLAN – EDUCATIONAL 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, other employees of state public school districts, colleges and universities, and some state agency employees) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy:

Member Contributions

Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 10.10% of their gross salary in fiscal year 2014; 10.7% of their gross salary in fiscal year 2015 and thereafter.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 10. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (continued)

Employer Contributions

The College contributed 13.15% of gross covered salary in fiscal year 2014. In fiscal year 2015 the College will contribute 13.9% of gross covered salary.

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, 2014, 2013, and 2012, were \$1,282,114, \$1,115,276, and \$870,294, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. 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.

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.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 11. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (continued)

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plan 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure that actuarial soundness of the benefits provided under the Retiree Health Care Act.

The College's contributions to the RHCA for the years ended June 30, 2014, 2013, and 2012 were \$188,220, \$196,188, \$167,830, respectively, which equal the required contributions for each year.

NOTE 12. INSURANCE COVERAGE

New Mexico Statutes (Section 15-7-2 NMSA 1978) require Risk Management Division (RMD) to be responsible "for the acquisition and administration of all insurance purchased by the State." Various statutes allow RMD to insure, self-insure and use a combination of both for all risks administered by it. RMD operates under the supervision of the Secretary of New Mexico, General Services Department.

The College is exposed to various risks of loss related to general, automobile and aircraft liabilities, including those relating to civil rights (torts); theft of, damage to and destruction of state property assets; errors and omissions; injuries to employees; group insurance; and natural disasters, all of which are insured against by participation in the public entity risk pool described above, subject to limits of coverage set by RMD. All employees of the College are covered by a blanket fidelity bond up to \$5,000,000, with a \$1,000 deductible per occurrence, by the State of New Mexico for the period July 1, 2013 through June 30, 2014.

NORTHERN NEW MEXICO COLLEGE
Notes to Financial Statements
For The Year Ended June 30, 2014

NOTE 13. DISCRETELY PRESENTED COMPONENT UNIT

The Northern New Mexico College Foundation (the Foundation) is a not-for-profit corporation established to acquire and manage charitable gifts, including endowed funds, to be used solely for the benefit of the College. The College owed the Foundation \$84,647 at June 30, 2014 for reimbursement of scholarship funds. The Foundation does not issue separate financial statements.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The various federal and state grants and programs are subject to audit by governmental agencies. These audits may result in disallowance of claimed reimbursable expenditures under rules and regulations of the various grants and programs. Management believes that the amounts of potential disallowances, if any, will not be material to the financial statements.

NOTE 15. RECLASSIFICATION OF BEGINNING FUND BALANCE (MODIFIED ACCRUAL BASIS)

During fiscal year 2014, management conducted an analysis of the College's fund balances and budgetary classifications. In reviewing the authoritative guidance provided under GASB 34 concerning the proper classification of budgetary fund categories, management concluded certain adjustments were needed to properly classify fund balances between Non-Expendable and Expendable fund balances in its Budgetary Comparison schedule. Accordingly, certain reclassification to fiscal year 2014 fund balance categories were made to more accurately align with reporting standards for 2014 presentation. The fund balance reclassification identified below resulted in no change to any asset, liability, revenue, total expense or total fund balance previously reported by the College.

	Total	Non-Expendable	Expendable
Fund Balance, June 30, 2013, as previously reported	38,638,520	35,775,042	2,863,478
Reclassification	-	3,974,570	(3,974,570)
Fund Balance, June 30, 2013, reclassified	<u>38,638,520</u>	<u>39,749,612</u>	<u>(1,111,092)</u>

SUPPLEMENTARY INFORMATION

NORTHERN NEW MEXICO COLLEGE
Budgetary Comparison - Restricted and Unrestricted - All Operations (Modified Accrual)
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Modified Accrual)	Favorable (Unfavorable)
Beginning, Fund Balance (Modified Accrual Basis)	\$ 2,971,417	\$ 2,863,478	\$ 2,863,478	\$ -
Reclassification, Note 15	-	-	(3,974,570)	(3,974,570)
Reclassified Beginning, Fund Balance (Modified Accrual Basis)	2,971,417	2,863,478	(1,111,092)	(3,974,570)
Revenues				
State government appropriations	12,874,751	13,037,835	13,034,077	(3,758)
Federal government contracts and grants	10,299,263	8,066,511	8,089,984	23,473
State government contracts and grants	1,009,423	1,479,642	1,379,068	(100,574)
Local government contracts and grants	127,698	9,500	50,528	41,028
Private gifts, grants, and contracts	61,500	264,085	148,044	(116,041)
Tuition and miscellaneous fees	5,847,298	4,864,220	4,486,940	(377,280)
Land and permanent fund	135,500	137,126	161,714	24,588
Sales and services	1,995,358	671,362	813,823	142,461
Other	282,814	176,548	109,579	(66,969)
Total Revenues	32,633,605	28,706,829	28,273,757	(433,072)
Expenditures				
Instruction	8,469,101	7,298,252	7,264,650	33,602
Student social and cultural activities	114,545	97,520	96,773	747
Academic support	1,133,919	821,694	789,747	31,947
Student services	2,474,714	1,985,201	2,019,696	(34,495)
Institutional support	6,138,051	4,884,526	4,788,356	96,170
Operation and maintenance of plant	2,040,192	1,868,031	1,881,790	(13,759)
Research	17,698	40,885	40,516	369
Public service	345,245	357,563	411,762	(54,199)
Internal service	1,423,761	1,413,127	1,301,721	111,406
Auxiliary enterprises	912,010	1,071,487	960,547	110,940
Capital outlay	1,800,000	2,444,872	3,211,102	(766,230)
Renewal and replacement	504,349	356,712	170,441	186,271
Student aid, grants, and stipends	6,527,274	5,048,466	5,281,818	(233,352)
Intercollegiate athletics	552,207	623,365	650,830	(27,465)
Total Expenditures	32,453,066	28,311,701	28,869,749	(558,048)
Net Transfers - In (Out)	-	-	-	-
Change in Fund Balance (Modified Accrual Basis)	180,539	395,128	(595,992)	(991,120)
Ending, Fund Balance (Modified Accrual Basis)	\$ 3,151,956	\$ 3,258,606	\$ (1,707,084)	\$ (4,965,690)

See Report of Independent Auditors

NORTHERN NEW MEXICO COLLEGE
Budgetary Comparison - Restricted - Instruction and General (Modified Accrual)
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Modified Accrual)	Favorable (Unfavorable)
Beginning, Fund Balance (Modified Accrual Basis)	\$ 42,953	\$ 42,952	\$ 102,288	\$ 59,336
Revenues				
State government appropriations	-	-	-	-
Federal government contracts and grants	4,534,834	3,858,226	3,873,505	15,279
State government contracts and grants	122,018	139,602	163,114	23,512
Local government contracts and grants	30,000	-	-	-
Private gifts, grants, and contracts	-	71,544	71,724	180
Tuition and miscellaneous fees	-	-	-	-
Land and permanent fund	-	-	-	-
Sales and services	-	-	-	-
Other	1,000	69,739	(192,095)	(261,834)
Total Revenues	4,687,852	4,139,111	3,916,248	(222,863)
Expenditures				
Instruction	1,981,431	2,074,290	1,819,749	254,541
Student social and cultural activities	-	-	-	-
Academic support	163,443	126,780	100,514	26,266
Student services	1,203,546	913,657	933,090	(19,433)
Institutional support	1,299,749	1,016,723	964,173	52,550
Operation and maintenance of plant	-	-	-	-
Research	-	-	-	-
Public service	-	-	-	-
Internal service	-	-	-	-
Auxiliary enterprises	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacement	-	-	-	-
Student aid, grants, and stipends	-	-	-	-
Independent operations	-	-	-	-
Intercollegiate athletics	-	-	-	-
Total Expenditures	4,648,169	4,131,450	3,817,526	313,924
Net Transfers - In (Out)	9,514	(50,613)	(201,010)	(150,397)
Change in Fund Balance (Modified Accrual Basis)	49,197	(42,952)	(102,288)	(59,336)
Ending, Fund Balance (Modified Accrual Basis)	\$ 92,150	\$ -	\$ -	\$ -

See Report of Independent Auditors

NORTHERN NEW MEXICO COLLEGE
Budgetary Comparison - Unrestricted - Instruction and General (Modified Accrual)
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Modified Accrual)	Favorable (Unfavorable)
Beginning, Fund Balance (Modified Accrual Basis)	\$ 4,443,065	\$ 4,335,125	\$ (987,155)	\$ (5,322,280)
Revenues				
State government appropriations	10,875,251	10,725,251	10,725,300	49
Federal government contracts and grants	124,119	-	4,265	4,265
State government contracts and grants	13,810	-	-	-
Local government contracts and grants	-	-	-	-
Private gifts, grants, and contracts	-	-	-	-
Tuition and miscellaneous fees	5,250,323	4,091,630	3,666,765	(424,865)
Land and permanent fund	135,500	137,126	161,714	24,588
Sales and services	6,764	2,121	-	(2,121)
Other	52,014	37,837	12,667	(25,170)
Total Revenues	16,457,781	14,993,965	14,570,711	(423,254)
Expenditures				
Instruction	6,487,670	5,223,964	5,444,901	(220,937)
Student social and cultural activities	-	-	-	-
Academic support	970,476	694,914	689,233	5,681
Student services	1,271,168	1,071,544	1,086,606	(15,062)
Institutional support	4,838,302	3,867,803	3,824,183	43,620
Operation and maintenance of plant	2,040,192	1,868,031	1,881,790	(13,759)
Research	-	-	-	-
Public service	-	-	-	-
Internal service	-	-	-	-
Auxiliary enterprises	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacement	-	-	-	-
Student aid, grants, and stipends	-	-	-	-
Independent operations	-	-	-	-
Intercollegiate athletics	-	-	-	-
Total Expenditures	15,607,808	12,726,256	12,926,713	(200,457)
Net Transfers - In (Out)	(555,563)	(1,377,395)	(2,516,271)	(1,138,876)
Change in Fund Balance (Modified Accrual Basis)	294,410	890,314	(872,273)	(1,762,587)
Ending, Fund Balance (Modified Accrual Basis)	\$ 4,737,475	\$ 5,225,439	\$ (1,859,428)	\$ (7,084,867)

See Report of Independent Auditors

NORTHERN NEW MEXICO COLLEGE

**Reconciliation of Budgetary Basis (Modified Accrual) to Financial Statement Basis (Accrual) - Restricted and Unrestricted - All Operations
For the Year Ended June 30, 2014**

Total Restricted and Unrestricted Revenues:

Modified Accrual Basis	<u>\$ 28,273,757</u>
Reconciling items:	
Scholarship allowance (not in modified accrual basis)	(3,307,662)
Other revenue (not in modified accrual basis)	386,538
Total reconciling items	<u>(2,921,124)</u>
Financial Statement Basis	<u><u>\$ 25,352,633</u></u>

Basic Financial Statements

Operating revenues	\$ 11,934,225
Non-operating revenues	13,418,408
Total Restricted and Unrestricted Revenues Per Financial Statements	<u><u>\$ 25,352,633</u></u>

Total Restricted and Unrestricted Expenditures:

Budgetary Basis	<u>\$ 28,869,749</u>
Reconciling items:	
Scholarship allowance (not in modified accrual basis)	(3,307,662)
Capital outlay (not in financial statements)	(3,123,918)
Depreciation expense (not in modified basis)	1,516,661
Total reconciling items	<u>(4,914,919)</u>
Financial Statement Basis	<u><u>\$ 23,954,830</u></u>

Basic Financial Statements

Operating expenditures	\$ 23,954,830
Non-operating expenditures	-
Total Restricted and Unrestricted Expenditures Per Financial Statements	<u><u>\$ 23,954,830</u></u>

See Report of Independent Auditors

OTHER SUPPLEMENTARY INFORMATION

NORTHERN NEW MEXICO COLLEGE
Schedule of Deposit Accounts
As of June 30, 2014

Depository/Account Name	Type of Account	Cash per Bank June 30, 2014	Add Deposits in Transit	Less Outstanding Checks	Other Reconciling Items	Adjusted Cash (Deficit) Balance June 30, 2014
COLLEGE						
Valley National Bank						
General	Checking	\$ 60,240	\$ 8,433	\$ (241,456)	\$ 232,470	\$ 59,687
Payroll	Checking	10,179	105	(13,517)	(3,199)	(6,432)
Student	Checking	4,235	-	-	50	4,285
Savings	Savings	1,001	-	-	-	1,001
Bank of America						
Payroll	Checking	2,173	-	-	-	2,173
Perkins	Checking	31,542	225	-	-	31,767
Luis Bustos	Checking	6,673	-	-	-	6,673
Federal	Checking	17,352	-	-	-	17,352
Community Bank						
General	Checking	5,448	1,823	-	-	7,271
Cash in Bank		138,843	10,586	(254,973)	229,321	123,777
Petty Cash and Cash Drawers		4,417	-	-	-	4,417
Total College Cash and Cash Equivalents		\$ 143,260	\$ 10,586	\$ (254,973)	\$ 229,321	\$ 128,194
FOUNDATION						
Valley National Bank						
Operating	Checking	\$ 33,441	\$ -	\$ (210)	\$ 109	\$ 33,340
Marketing	Checking	48,078	-	-	1,637	49,715
On-line Giving	Checking	112,366	-	-	7,970	120,336
Total Foundation Cash and Cash Equivalents		\$ 193,885	\$ -	\$ (210)	\$ 9,716	\$ 203,391

See Report of Independent Auditors

NORTHERN NEW MEXICO COLLEGE
Schedule of Pledged Collateral
As of June 30, 2014

COLLEGE:

<u>Pledged Collateral</u>		<u>Valley</u>			<u>Total</u>
<u>Safekeeping</u>	<u>Type of</u>	<u>National Bank</u>	<u>Community Bank</u>	<u>Bank of America</u>	
<u>Location</u>	<u>Security</u>				
Funds on Deposit					
Demand deposits		\$ 75,655	\$ 5,448	\$ 57,740	\$ 138,843
FDIC Insurance					
Demand deposits		(75,655)	(5,448)	(57,740)	(138,843)
Total Uninsured Public Funds					
		\$ -	\$ -	\$ -	\$ -
Fifty Percent Collateral					
Requirement Per Section					
6-10-17 NMSA					
		\$ -	\$ -	\$ -	\$ -
Pledged Collateral					
Valley National Bank		-	-	-	-
Bank of America					
	CUSIP #31419AQ83	-	-	328,649	328,649
		-	-	328,649	328,649
Deficiency / (Excess) of Pledged Collateral					
		\$ -	\$ -	\$ (328,649)	\$ (328,649)

FOUNDATION:

The Foundation is not required to have pledged collateral on excess cash balances.

See Report of Independent Auditors

NORTHERN NEW MEXICO COLLEGE
Schedule of Collaborative Partnerships
As of June 30, 2014

Collaborative Partnerships	Signed/Entered	Amounts	Contact	Note
Memorandum of Understanding				
MOU between NNMC and NNMC Foundation	October 16, 2008 Succeeds Sept 11, 2008 MOA	\$ 41,968	N/A	Sets up financial and strategic arrangement between entities.
MOU between NNMC and the Espanola Farmers Market Board	May 14, 2007	\$ 4,400	Gene Lopez, President	Allows for collaboration between the College and the EF market.
MOU between NNMC and ENIPC, Inc.	August, 2006	\$ 32,000	N/A	Formalize the relationship between NNMC and Eight Northern Indian Pueblos.
MOU between Northern HEP Program and the Village of Chama for instructional space	March 1, 2014	\$ -	Shari Jobe	

Memorandum of Agreement				
MOA between NNMC and the El Rito Regional Water and Wastewater Association	July 15, 2010	\$ 6,000	N/A	Use of existing space at the El Rito Campus for the ERRW&WA.
MOA between Northern and Chama Valley Schools for instructional space	August 1, 2013	\$ 4,000	Ricky Serna	

See Report of Independent Auditors

NORTHERN NEW MEXICO COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Agency/ Pass-Through Agency/ Name of Program	Pass- Through Number	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>U.S. Department of Education Programs</i>			
Direct Student Financial Assistance Cluster			
Supplemental Education Opportunity Grant (SEOG)		84.007	\$ 90,179
Federal Work Study		84.033	102,075
Federal Pell Grant		84.063	3,124,696
Federal Direct Loans Subsidized		84.268	576,011
Federal Direct Loans Unsubsidized		84.268	265,626
Federal Perkins Loans		84.038	8,250
Total Student Financial Assistance Cluster			<u>4,166,837</u>
Direct TRIO			
Educational Opportunity Center		84.066	<u>431,979</u>
Direct Higher Education Institutional Aid			
Title III			
Northern Rio Grande STEM Collaborative		84.031C	961,079
Title V			
Title V - Exito		84.031S	657,728
Title V - Avance		84.031M	428,693
Subtotal Higher Education Institutional Aid			<u>2,047,500</u>
Direct Migrant Education			
High School Equivalency Program		84.141	<u>448,357</u>
Direct College Assistance			
College Assistance Migrant Program		84.149A	<u>288,843</u>
<i>U.S. Department of Education Pass-through Programs</i>			
Pass-through New Mexico State University			
Perkins - Career and Technical Training	V046A1100031	84.048	78,065
Adult Basic Education	V002A110032	84.002	80,222
College Access Challenge Grants	P378A110052	84.378	76,578
Subtotal Pass-through New Mexico State University (non-ARRA)			<u>234,865</u>
TOTAL U.S. DEPARTMENT OF EDUCATION PROGRAMS			<u>7,618,381</u>
U.S. DEPARTMENT OF ENERGY			
Environmental Data Access Center		81.214	<u>6,985</u>
<i>Pass-through Program</i>			
Environmental Remediation and Waste Processing Disposal	E-EM00001367	81.104	<u>67,468</u>
TOTAL U.S. DEPARTMENT OF ENERGY			<u>67,468</u>
TOTAL U.S. DEPARTMENT OF ENERGY PROGRAMS			<u>74,453</u>

NORTHERN NEW MEXICO COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Agency/ Pass-Through Agency/ Name of Program	Pass- Through Number	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF COMMERCE			
EDA-University Center	08-66-04631.01	11.306	19,658
TOTAL DEPARTMENT OF COMMERCE			19,658
NATIONAL SCIENCE FOUNDATION			
<i>Research and Development</i>			
<i>Direct Program</i>			
Education and Human Resources-CRI		47.076	27,180
Subtotal Direct Research and Development			27,180
<i>Pass-through Programs</i>			
Pass-through New Mexico Tech			
Education and Human Resources-NM STEM Transfer Coalition	DUE-1161334	47.076	15,380
Subtotal Pass-through - Research and Development			15,380
Subtotal Research and Development			42,560
<i>Research and Development - Education and Human Resources</i>			
<i>Direct Programs</i>			
Education and Human Resources-NOYCE		47.076	51,027
Education and Human Resources-ASPIRE		47.076	69,008
Education and Human Resources-STEM		47.076	85,335
Education and Human Resources - DUE PEARL		47.076	29,726
Subtotal Direct - Education and Human Resources			235,096
<i>Pass-through Programs</i>			
Pass-through New Mexico State University			
Education and Human Resources-NM Alliance for Minority Participation	HRD-0803171	47.076	19,863
Pass-through Missouri State University:			
Education and Human Resources-VESTA National Center of Excellence	DUE-1104205	47.076	84,048
Pass-through University of New Mexico			
Education and Human Resources - DUE	DUE-1044922	47.076	12,568
Subtotal Pass-through Education and Human Resources			116,479
Subtotal Education and Human Resources			394,135
Pass-through University of New Mexico			
ARRA - Trans-NSF Recovery Act Research Support	63019	47.082	7,000
Subtotal Trans-NSF Recovery Act			7,000
TOTAL NATIONAL SCIENCE FOUNDATION RESEARCH AND DEVELOPMENT PROGRAMS			401,135
TOTAL FEDERAL PROGRAMS			\$ 8,113,627

NORTHERN NEW MEXICO COLLEGE
Notes To Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of Federal Awards (the schedule) includes the federal grant activity of the College under programs of the Federal Government for the year ended June 30, 2014. The information in this schedule is presented in accordance with OMB circular A-133, *Audits of state, local governments, and non-profit organizations*. Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 3. CONTINGENCIES

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

NOTE 4. STUDENT FINANCIAL ASSISTANCE

The College administers the Perkins Loan Program. The Schedule of Expenditures of Federal Awards includes an amount, which represents administrative costs and new loans processed during the year ended June 30, 2014. Perkins Loans awarded for the year ended June 30, 2014 totaled \$8,250. As of June 30, 2014, the outstanding student loan balance under the federal Perkins Loan Program was \$220,360.

NOTE 5. SUB-RECIPIENTS

The following presents the funds passed to sub-recipients during the year ended June 30, 2014:

<u>Sub-recipients</u>	<u>FY 14 Expenses</u>
Title III - Northern Rio Grande STEM Collaborative:	
Santa Fe Community College	\$ 125,574
University of New Mexico - Taos	223,576
University of New Mexico - Los Alamos	<u>238,950</u>
	<u>588,100</u>
 Total	 <u><u>\$ 588,100</u></u>

SINGLE AUDIT

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

Board of Regents
Northern New Mexico College
and
Hector H. Balderas, New Mexico State Auditor

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component unit of Northern New Mexico College (the College) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and related budgetary comparisons and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

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

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

Board of Regents
Northern New Mexico College
and
Hector H. Balderas, New Mexico State Auditor

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-022, 2013-001 and 2013-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-003 and 2014-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-007, 2014-001 and 2014-002.

College's Responses to the Findings

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

Board of Regents
Northern New Mexico College
and
Hector H. Balderas, New Mexico State Auditor

Purpose of this Report

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

Mess Adams LLP

Albuquerque, New Mexico
November 7, 2014

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Regents
Northern New Mexico College
and
Mr. Hector H. Balderas, New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited Northern New Mexico 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, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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.

Board of Regents
Northern New Mexico College
and
Mr. Hector H. Balderas, New Mexico State Auditor

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

Opinion on Each Major Federal Program

In our opinion the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Regents
Northern New Mexico College
and
Mr. Hector H. Balderas, New Mexico State Auditor

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
November 7, 2014

**NORTHERN NEW MEXICO COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014**

2009-022 (2009-22) Budgetary Comparisons	Repeat & Modify
2013-001 (2013-01) Bank Reconciliations – Timeliness – College	Repeat & Modify
2013-002 (2013-02) Bank Reconciliations – Timeliness – Foundation	Repeat & Modify
2013-003 (2013-03) Capital Assets – Physical Inventory Not Reconciled to the General Ledger	Repeat & Modify
2013-006 (2013-06) Controls over Payroll	Resolved
2013-007 (2013-07) Disaster Recovery Plan and Password Policies	Repeat & Modify
2013-008 (2013-08) Cash Management: Policies and Procedures	Resolved
2013-009 (2013-09) Compliance with State Audit Rule: Governmental Conduct Act	Resolved
2013-004 (2013-04) Student Financial Aid – Return of Title IV Funds	Resolved
2013-005 (2013-05) High School Equivalency Program (HEP) Ineligible Students	Resolved

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(s) identified? X Yes None reported

Non-compliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(s) identified? Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of Major Federal Program

CFDA Number	Name of Federal Program or Cluster
84.141	High School Equivalency Program
Various	Student Financial Assistance Cluster

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS

2009-022 (2009-22) Budgetary Comparisons (Material Weakness)

CONDITION

During the year ended June 30, 2014, we noted that the College overspent its approved budget in the combined revenues and expenditures budget in the following expenditure categories:

Student services	\$ 34,495
Capital outlay	\$ 766,230
Public Service	\$ 54,199
Intercollegiate Athletics	\$ 27,465
Operation and maintenance of plant	\$ 13,759
Student aid, grants, and stipends	\$ 233,352

The College has overspent its budget for six consecutive years. This overspending has contributed to a deficit position in unrestricted net assets and a current ratio of less than 1.0 at June 30, 2014. Additionally, due to insufficient cash, there was \$317,667 in held checks at June 30, 2014.

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.

EFFECT

The College has not complied with budgetary compliance requirements as set out in the New Mexico Administrative Code which may impact future funding. Additionally, overspending the last several years has contributed to the College's weakened fiscal condition which has resulted in the College's inability to pay its bills timely at and during the year ended June 30, 2014.

CAUSE

The College's budget process did not adequately monitor budgets to ensure spending is in accordance with the budget approved by the Board.

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.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2009-022 (2009-22) Budgetary Comparisons (Material Weakness) (Continued)

MANAGEMENT RESPONSE

The College has established and implemented a formal institutional budgeting process involving hearings with all major departments to more accurately determine staffing and operational expenditure requirements for the upcoming fiscal year. In addition, the College implemented controls and processes for all departments to ensure that budget is available or, if necessary, adjusted within line items prior to the approval of any requisitions and purchase orders. This process was formally initiated on July 1, 2013, at the beginning of fiscal year 2014. The College is also monitoring, preparing and securing monthly budget authorization and approval from the Board of Regents for any increases or decreases in budgeted expenditures and for any transfers of budget expenditures between departments. The College is also refining its review process for preparing both interim and end-of-year budget adjustment requests for New Mexico Higher Education Department review and approval, as required.

It is worth noting with regards to Capital Projects that there was a large and unusual amount in FY14 associated with the Dormitory Project, discussed with Moss Adams previously. In regards to Student Aid, Grants and Contracts, the New Mexico Success Scholarship was estimated lower than actual funding received due to the negotiations that were still taking place during the legislative process.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2013-001 (2013-01) Bank Reconciliations - Timeliness of Review - College (Material Weakness)

CONDITION

The complete bank reconciliation process, including review, was not performed timely for 2014 cash accounts. Review and clean-up of cash reconciliations was still being performed during final fieldwork due to lack of timeliness of this process.

CRITERIA

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

EFFECT

Not reviewing cash accounts on a monthly basis creates the opportunity for errors or inappropriate transactions to occur undetected.

CAUSE

During the year, the College had time constraints and lacked the appropriate resources to timely review its cash reconciliations.

RECOMMENDATION

We suggest that the College prioritize the reconciliation process and implement policies and procedures to ensure that all cash accounts are reviewed monthly.

MANAGEMENT RESPONSE

The College recognizes the importance of this control and although bank reconciliations and reviews were complete, we did not post year-end adjustments nor complete the review process in a timely manner. Although there were many factors that impacted the timeliness of completing the review process of bank reconciliations, steps should have been taken earlier in the fiscal year to address the factors that increased the time required to complete these tasks. The college has set up a database in Access to take the place of the hard copy signatures and will be maintained online. The database will be implemented in FY15.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2013-002 (2013-02) Bank Reconciliations - Timeliness of Review - Foundation (Material Weakness)

CONDITION

The complete bank reconciliation process, including review, was not performed timely for 2014 cash accounts. Review and clean-up of cash reconciliations was still being performed during final fieldwork due to lack of timeliness of this process.

CRITERIA

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

EFFECT

Not reviewing cash accounts on a monthly basis creates the opportunity for errors or inappropriate transactions to occur undetected.

CAUSE

During the year, the College had time constraints and lacked the appropriate resources to timely review its cash reconciliations.

RECOMMENDATION

We recommend the Foundation prioritize the reconciliation process and implement policies and procedures to ensure that all cash accounts are reviewed monthly.

MANAGEMENT RESPONSE

The College recognizes the importance of this control and although bank reconciliations and reviews were complete, we did not post year-end adjustments nor complete the review process in a timely manner. Although there were many factors that impacted the timeliness of completing the review process of bank reconciliations, steps should have been taken earlier in the fiscal year to address the factors that increased the time required to complete these tasks. The college has set up a database in Access to take the place of the hard copy signatures and will be maintained online. The database will be implemented in FY15.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2013-003 (2013-03) Capital Assets - Physical Inventory Not Reconciled to the General Ledger
(Significant Deficiency)**

CONDITION

The annual physical inventory of equipment was not reconciled to the general ledger.

CRITERIA

Sound accounting practices require that the capital assets subledger be adjusted to the physical inventory observation.

EFFECT

The College is at risk that capital assets, capital expenditures and depreciation expense could be materially misstated on the financial statements.

CAUSE

The College's inventory process was incomplete at year end due to the fact the equipment was counted and not reconciled to the equipment module in Banner and the equipment depreciation excel spreadsheet schedules.

RECOMMENDATION

We recommend the College review and track their expenditures for capital assets on a monthly basis for all transactions including acquisitions, depreciation, and dispositions, and for items that need to be capitalized. Additionally, an annual physical inventory should be reconciled to the capital assets module.

MANAGEMENT RESPONSE

This is a work in progress. In fiscal year 2014, the information technology division was responsible for completing the physical inventory of all the electronic equipment, and the business office was responsible for completing the physical inventory of all the other equipment. The inventories were completed, but due to a lack of resources and time constraints, a reconciliation of the count results to the physical records was not completed by final fieldwork. This is a large project that continues to be worked on and will take several months to complete.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2013-007 (2013-07) Disaster Recovery Plan and Password Policies (finding that does not rise to the level of a significant deficiency)

CONDITION

During our review of general IT controls relevant to financial reporting, we noted the following:

- (a) There is no formal written Disaster Recovery Plan covering significant financial systems.
- (b) There is no formal written Incident Response Plan that will provide guidance in responding to different kinds of incidents or threats that are applicable to the College
- (c) There is no password policy in the domain system as well as the Accounting system that requires a mandatory and frequent password change by the user.

CONDITION

In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 4.1, framework (DS4, Ensure Continuous Service), a Disaster Recovery Plan should cover all critical applications and systems to reduce impact of a major disruption on key business functions and processes.

Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintain IT security and roles and responsibilities, policies, standards, and procedures. Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

EFFECT

The absence of a Disaster Recovery Plan for the accounting system may pose question as to the College's ability to respond and recover its accounting data in the event of an unforeseen disaster.

Unsophisticated password security decreases overall system security which makes the infrastructure vulnerable to attack and unauthorized data access or modification.

CAUSE

Although IT management considered these risks as part of their daily IT processes, a formal written plan has never been adopted.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2013-007 (2013-07) Disaster Recovery Plan and Password Policies (finding that does not rise to the level of a significant deficiency) (Continued)

RECOMMENDATION

We recommend the following:

- (a) Developing a formal Disaster Recovery Plan for the accounting system that should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations. It would be prudent for the College to test the Disaster Recovery Plan to ensure the viability of the plan and the timeliness of its execution.
- (b) Develop a formal Incident Response Plan that will cover procedures and responsibilities involved in case of identified security incident. This will ensure the incident will be addressed in a consistent and timely manner.
- (c) Improve password policies in the network and all applications by requiring all users to frequently change their passwords

MANAGEMENT RESPONSE

The virtual environment to consolidate all servers has been completed and is running successfully. Due to budgetary constraints, the College was not able to acquire a second, fully redundant, virtual environment to mirror our existing system and thus provide full disaster recovery capability. This will be considered again during the upcoming budget hearings for the fiscal year 2016 budget. The password policy has not been developed yet as efforts to move all users to the domain has to be completed and is currently still in process. Once this is complete, the password policy will be developed. The College anticipates that this will be completed by the early part of fiscal year 2016.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2014-001 Capital Assets – Inconsistent Depreciable Lives of Equipment (finding that does not rise to the level of a significant deficiency)

CONDITION

The College does not have an accounting policy designating specific depreciable lives for equipment. Thus, the College has been depreciating equipment inconsistently over time.

CRITERIA

Sound accounting policies require that fixed asset categories be consistently depreciated over assigned useful lives.

EFFECT

The College is at risk that depreciation expense for equipment could be materially misstated on the financial statements.

CAUSE

The College is aware of the issue in depreciation consistency, but time constraints have prevented it from correcting this issue.

RECOMMENDATION

We recommend that the College implement an accounting policy that specifically designates assigned useful lives to equipment acquired by the College.

MANAGEMENT RESPONSE

The College does consistently depreciate equipment. There are two different lives currently being used based on the expected longevity of the equipment. A depreciable life of 5 years is used for most equipment. If due to the nature of the equipment, it has a particularly long expected life, a depreciable life of 12 years is used instead. In the last few years there were several items of equipment that had longer useful lives and thus were given the 12 year depreciable lives. In FY14 no item met that threshold and therefore all items were based on the shorter life. The expectation of longevity of the equipment is determined by interaction with the purchaser. The College will work to develop accounting policies and procedures that clearly designate assigned useful lives to equipment and will be implemented in FY15.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2014-002 Travel and Per Diem (finding that does not rise to the level of significant deficiency)

CONDITION

In one of five items tested, the item did not have the appropriate Out of State verification form.

CRITERIA

In accordance with Section 10-8-1 to 10-8-8 NMSA 1978 2.42.2 NMAC governs the payment of per diem rates and mileage and the reimbursement of expenses for all salaried and non-salaried public officers and employees of the state government.

EFFECT

The College is in violation of state statute.

CAUSE

The College has well designed controls regarding the review of all travel and mileage related expenses. The controls were not fully implemented as the missing form was not detected during review.

RECOMMENDATION

Attention should be made to reviewing the calculation that comprises the total reimbursement. Reimbursement requests not properly reviewed and approved in accordance with statute and regulation significantly increase the risk of fraudulent payment requests.

MANAGEMENT RESPONSE

NNMC policy requires that an Out of State Approval Form be on file for all out of state travel. In this case, the individual was reimbursed correctly but during the audit process, the Business Office did not recognize that the Out of State Travel Form was missing. A checklist will be developed that will be completed for all travel to ensure all audit steps have been completed before reimbursement is processed.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2014-003 Expended funds on Capital Projects before required approval obtained (significant deficiency)

CONDITION

Northern New Mexico College started and expended funds on three projects that were legislatively funded before obtaining required approvals.

CRITERIA

According to State Statute 21-1-21 Capital Expenditures, no expenditure shall be made by any state educational institution confirmed by Article 12, Section 11 of the state constitution for the purchase of real property or the construction of buildings or other major structures or for major remodeling projects without prior approval of the proposed purchase or construction or remodeling by the board of educational finance and the state board of finance.

EFFECT

The College is in violation of state statute.

CAUSE

The College was not aware of that GOB13 12-1254 required approval by both board of educational finance and the state board of finance.

RECOMMENDATION

We recommend that the College implement procedures to ensure compliance with state statute for before beginning capital projects.

MANAGEMENT RESPONSE

The College has developed internal processes and procedures for the review and preparation of capital projects that require New Mexico Higher Education Department's Capital Outlay Committee and/or New Mexico State Board of Finance Committee approval for capital projects meeting statutory threshold requirements. In addition, the College has also contracted the services of a qualified architect to assist in the preparation and review of all capital projects requiring statutory review and approval.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD
PROGRAM AUDIT**

None.

NORTHERN NEW MEXICO COLLEGE

EXIT CONFERENCE

Year Ended June 30, 2014

The contents of this report were discussed in a closed meeting exit conference held on November 7, 2014 at Northern New Mexico College, with the following in attendance:

Representing Northern New Mexico College:

Dr. Nancy Barcelo - President

Domingo Sanchez III - Vice President for Finance and Administration

Ricky Serna - Vice President for Advancement

Henrietta Trujillo - Director of Business Operations

Jacob Pacheco - Director of Financial Aid

Connie Manzanares - Financial Aid Assistant Director

Alex Williams - Sr. Financial Analyst

Frank Orona - Dean of Students

Kevin Powers - Board of Regents of College

Representing Northern New Mexico College Foundation:

Dr. Nancy Barcelo - President (College) and Board Member of Foundation

Domingo Sanchez III - Vice President for Finance and Administration (College)

Ricky Serna - Vice President for Advancement (College)

Representing Moss Adams LLP:

Lisa Todd - Partner