



**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE**

FINANCIAL STATEMENTS

JUNE 30, 2011

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

TABLE OF CONTENTS

STATE OF NEW MEXICO LUNA COMMUNITY COLLEGE

| | |
|---|---|
| Listing of Principal Officials..... | 1 |
| Report of Independent Auditors | 2 |
| Management’s Discussion and Analysis..... | 5 |

FINANCIAL STATEMENTS

| | |
|---|----|
| Statement of Net Assets..... | 13 |
| Statement of Revenues, Expenses and Changes in Net Assets | 14 |
| Statement of Cash Flows..... | 15 |
| Notes to Financial Statements..... | 16 |

SUPPLEMENTAL INFORMATION

| | |
|--|----|
| Combined Revenues and Expenditures Budget Comparisons – Unrestricted and Restricted – All Operations | 30 |
| Unrestricted Current Funds – Summary of Instruction and General Revenues and Expenditures Budget Comparisons..... | 31 |
| Restricted Current Funds – Summary of Instruction and General Revenues and Expenditures Budget Comparisons..... | 32 |

TABLE OF CONTENTS

STATE OF NEW MEXICO LUNA COMMUNITY COLLEGE

SUPPLEMENTAL INFORMATION (CONTINUED)

SCHEDULES

| | |
|--|----|
| Schedule of Cash and Cash Equivalents..... | 33 |
| Schedule of Pledged Collateral..... | 34 |
| Schedule of Memorandums of Understanding..... | 35 |
| Schedule of Expenditures of Federal Awards..... | 37 |
| Notes to Schedule of Expenditures of Federal Awards..... | 38 |

SINGLE AUDIT SECTION

| | |
|--|----|
| 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 <i>Government Auditing Standards</i> | 39 |
| Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | 42 |
| Summary Schedule of Prior Year Audit Findings..... | 45 |
| Schedule of Findings and Questioned Costs..... | 46 |
| Exit Conference | 58 |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE**

Listing of Principal Officials

June 30, 2011

BOARD OF TRUSTEES

| Name | Title |
|-----------------------|---------------|
| Thomas Jerry Maestas | Chairman |
| Tony Valdez | Vice Chairman |
| Abelino Montoya, Jr. | Secretary |
| Frank E. Tenorio | Member |
| Ambrose M. Castellano | Member |
| David Gutierrez | Member |
| Levi Alcon, Jr. | Member |

ADMINISTRATIVE OFFICIALS

| Name | Title |
|-----------------------|--|
| Pete Campos | President |
| Donna Flores - Medina | Vice President for Finance & Administration |

Report of Independent Auditors

To the Board of Trustees
Luna Community College
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities of the State of New Mexico Luna Community College (College), and its discretely presented component unit (Luna Community College Foundation) as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements, as listed in the table of contents. We have also audited the budget comparisons presented as supplemental information for the year ended June 30, 2011 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity

To the Board of Trustees
Luna Community College
and
Mr. Hector H. Balderas, New Mexico State Auditor

with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparisons referred to above present fairly, in all material respects, the budget comparison for the year then ended in conformity with the budgetary basis of accounting prescribed by the New Mexico Administrative Code, and more fully described in the budgetary schedules, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 to 12 is not a part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budget comparisons. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The Schedule of Cash and Cash Equivalents, Schedule of Pledged Collateral, and the Schedule of Memorandums of Understanding are presented for

To the Board of Trustees
Luna Community College
and
Mr. Hector H. Balderas, New Mexico State Auditor

purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mess Adams LLP

Albuquerque, New Mexico
November 10, 2011

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

INTRODUCTION

The management of Luna Community College (College or LCC) herewith presents its financial statements and required supplementary information for the year ended June 30, 2011. The following discussion and analysis provides an overview of the financial position and activities of the College and is intended to be user-friendly information for all readers.

This report is prepared as required to conform with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis (MD&A) – for State and Local Governments*.

THE BASIC FINANCIAL STATEMENTS

Required under GASB 34/35 is the presentation of all of the College’s year-end assets, liabilities and net assets in one column, as is the presentation of its expense, revenues and the resulting change in net assets, and its sources and uses of cash, in a one-column format. The purpose of these three reports is to show the College’s financial position and annual activities in summary format, as if the College was a corporation, whereby all funds and cost centers are combined.

The three entity-wide reports, the **Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows**, are followed by the notes to the financial statements, including a comparison of the final budget to the original budget and of actual results to the final budget.

The **Statement of Net Assets** presents the assets, liabilities and net assets for the College as of the end of the fiscal year. The **Statement of Net Assets** is a point-in-time financial statement which gives the readers a fiscal snapshot of the College presenting end of year data about assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities).

Changes in total net assets are based on the activity in the **Statement of Revenues, Expenses, and Changes in Net Assets** namely the revenues received by the College, both operating and non-operating, and any other revenue, and the expense incurred by the College.

The third financial statement is the **Statement of Cash Flows** that represents the inflows and outflows of cash from operating, capital, financial and investing activities. The statement is prepared using the direct method.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

REPORTING ENTITY

This financial report presents the basic financial statements of the College and any component units deemed material. The College's foundation was considered material and was presented as a component unit. The College has no other units to consider for inclusion in this report.

Luna Community College
Condensed Summary of Net Assets
June 30, 2011

| | <u>10-11</u> | <u>09-10</u> |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | \$ 4,485,065 | \$ 4,005,754 |
| Capital assets, net of accumulated depreciation | 19,359,707 | 14,955,049 |
| Total Assets | <u>\$ 23,844,772</u> | <u>\$ 18,960,803</u> |
| Liabilities | | |
| Current liabilities | \$ 948,625 | \$ 1,053,351 |
| Noncurrent liabilities | 53,456 | 59,234 |
| Total Liabilities | <u>\$ 1,002,081</u> | <u>\$ 1,112,585</u> |
| Net Assets | | |
| Invested in capital assets, net of accumulated depreciation | \$ 19,359,707 | \$ 14,955,049 |
| Restricted for expendable capital projects | - | 297,318 |
| Unrestricted | 3,482,984 | 2,595,851 |
| Total Net Assets | <u>\$ 22,842,691</u> | <u>\$ 17,848,218</u> |

The College's current assets consist primarily of cash and other assets deemed to be consumed or convertible to cash within one year in the amount of \$4,485,065.

Current liabilities are amounts due within one year of \$948,625 and non-current liabilities, accrued compensated absences of \$53,456.

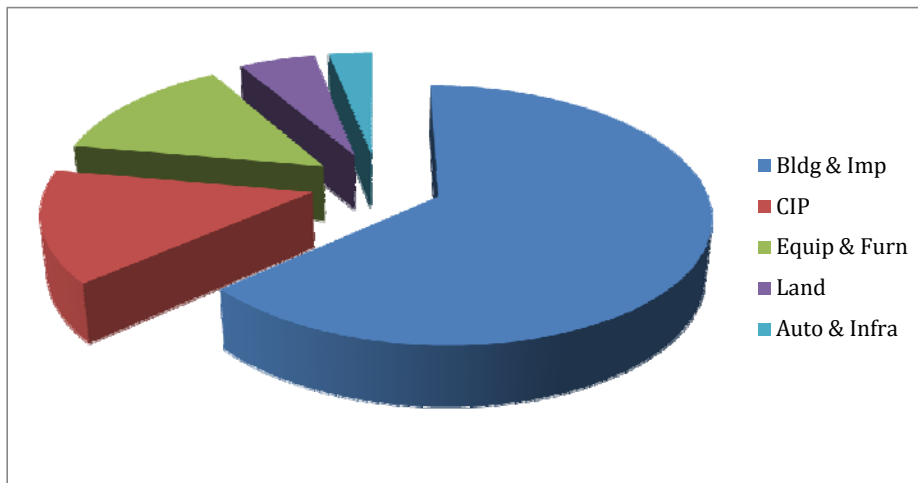
At June 30, 2011, the College's current ratio was nearly 5:1 comparing the amount of current assets, \$4,485,065 available to cover current liabilities, \$948,624. The largest category of non-current assets is capital assets, net of accumulated depreciation of \$19,359,707.

The significant change between 09-10 and 10-11 in Current Assets is due to decreased expenditure levels.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

REPORTING ENTITY (Continued)

Capital Assets at Cost



Luna Community College
Condensed Summary of Revenue, Expenses and Changes in Net Assets
June 30, 2011

| | <u>10-11</u> | <u>09-10</u> |
|---|-------------------|-------------------|
| Operating Revenues By Major Source | | |
| Tuition | \$ 671,259 | \$ 583,279 |
| Contracts and grants | 5,592,363 | 2,144,699 |
| Sales and services of auxiliary enterprises | 864,871 | 688,954 |
| Other | 518,284 | 335,423 |
| | <u>7,646,777</u> | <u>3,752,355</u> |
| Operating Expenses By Major Function | | |
| Instruction | 5,139,901 | 5,293,387 |
| Academic support | 1,188,208 | 1,134,499 |
| Student services | 1,291,975 | 1,354,740 |
| Institutional support | 2,192,930 | 2,377,840 |
| Operating and maintenance support | 1,896,678 | 1,995,979 |
| Public service | 613,994 | 609,756 |
| Student aid | 3,378,992 | 2,444,051 |
| Auxiliaries | 754,180 | 630,431 |
| Depreciation | 333,854 | 997,705 |
| | <u>16,790,712</u> | <u>16,838,388</u> |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

REPORTING ENTITY (Continued)

| Nonoperating Revenue (Expense) | <u>10-11</u> | <u>09-10</u> |
|--|-----------------------|-----------------------|
| Appropriations | 12,527,834 | 11,220,937 |
| Other | 1,610,574 | 2,224,598 |
| | <u>14,138,408</u> | <u>13,445,535</u> |
| Total increase in net assets | 4,994,473 | 359,502 |
| Net Assets, Beginning of Year | <u>17,848,218</u> | <u>17,488,716</u> |
| Net Assets, End of Year | <u>\$ 22,842,691</u> | <u>\$ 17,848,218</u> |

Revenues in this reporting model are shown by source of funding. Operating revenues are generally defined as exchange transactions produced in conducting the primary business operations of the College, including instruction and public service. Non-operating revenues are generally defined as non-exchange revenues and include appropriations, gifts and investment income.

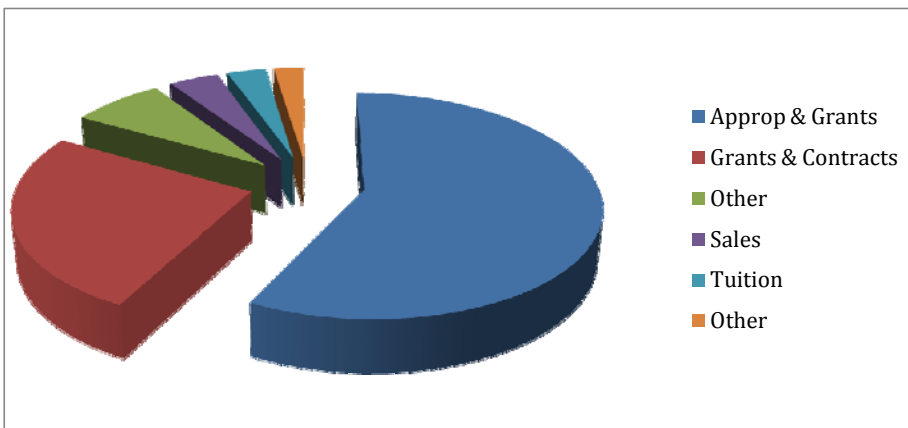
Significant changes are increases in contract revenue, and non-operating revenue more specifically appropriations and other flow through funding.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

REPORTING ENTITY (Continued)

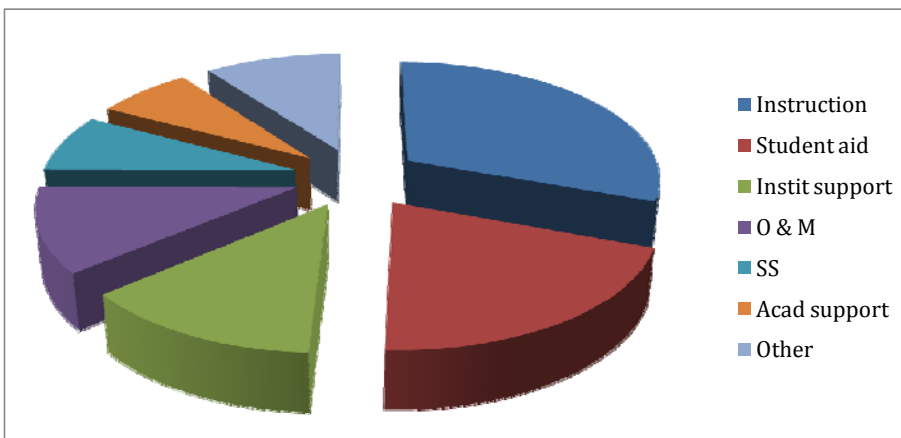
Although State of New Mexico appropriations are considered non-operating revenues, the College uses these funds to support key operations. The following chart displays revenues by source (some categories are combined).

Revenue By Source



The College elected to present expenses on the Statement of Revenue, Expenses and Changes in Net Assets by major functions of the College. The chart below shows the distribution of operating expense by functional category with minor categories combined.

Expenses By Function



The College's 2011 net assets showed an increase of \$4,994,476 due primarily to the addition of \$4,658,519 to Construction in Progress during the year.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

REPORTING ENTITY (Continued)

Total net assets are classified by the College's ability to use these assets to meet operating needs. Net assets are restricted to their use by sponsoring agencies, donors or other non-LCC entities are classified as "non-expendable" and "expendable". The restricted net assets are further classified in general terms as to the function for which they must be used. Unrestricted net assets may be used to meet all operating needs of the College. The chart below shows the change in net assets by category.

Prior Year Comparison of Changes in Net Assets

| | <u>10-11</u> | <u>09-10</u> | <u>Change</u> |
|---------------------------------------|--------------|--------------|---------------|
| Change in Net Assets | \$ 4,994,473 | \$ 359,502 | \$ 4,634,971 |
| Restricted Expendable Capital, net | - | 297,318 | (297,318) |
| Unrestricted | 19,359,707 | 14,955,049 | 4,404,658 |
| | 3,482,984 | 2,595,851 | 887,133 |

An analysis of financial position shows an adequate balance in unrestricted net assets, realizing an increase of \$887,133. There was variance primarily due to a decrease in expenditures.

Luna Community College
Condensed Summary of Cash Flows
June 30, 2011

| | <u>10-11</u> | <u>09-10</u> |
|---|----------------------------|----------------------------|
| Cash Flows Used By Operating Activities | \$ (9,675,589) | \$ (12,680,142) |
| Cash Flows Provided From Noncapital Financing Activities | 14,090,540 | 13,385,891 |
| Cash Flows Provided From Investment Activities | 47,868 | 59,644 |
| Cash Flows Used By Capital and Related Financing Activities | <u>(4,738,512)</u> | <u>(1,170,008)</u> |
| Net (Decrease) In Cash and Cash Equivalents | (275,693) | (404,615) |
| Cash and Cash Equivalents, Beginning of Year | <u>2,616,570</u> | <u>3,021,185</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 2,340,877</u></u> | <u><u>\$ 2,616,570</u></u> |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

REPORTING ENTITY (Continued)

Changes in Cash Flow are due primarily from a significant increase in Accounts Receivable.

Budget and Results

The Combined Revenue variance was \$2,165,432; \$1,160,533 of which was from the Education Center Project. One other significant variance of \$330,229 in Restricted I&G was from the Dental Hygiene Program, which is still in the development stage, as many components and partnerships are being put in place. The variances in these programs have equivalent variances on the expenditure for restricted funds. In addition, there were significant savings in unrestricted I&G.

The balances of the other funds and accounts varied in immaterial amounts.

Capital Asset Activity

Overall, the College's Capital Asset balance changed 29% increasing by \$4,404,657 as result of \$4,738,511 in net additions and \$333,854 in depreciation.

Long Term Debt

Luna Community College does not have any long-term debt.

FACTORS IMPACTING FUTURE PERIODS & ECONOMIC OUTLOOK

Fiscal year 2013 will usher in the revamped funding formula. While the impact of the first year will be a slight increase for Luna Community College, the pending change to completions rather than registrations by census date could yield a decrease. LCC continues to refine student learning outcomes and strengthen all programs in ways such as specialized accreditation. September 30, 2012 marks the end of the Title V grant and the College is planning for strategically continuing the on-line services to include broad marketing of our three newly approved on-line degrees.

For more detail and explanations, the reader should refer to the notes and other required supplementary information contained in this document.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Contact Information

The reader is encouraged to contact the College with any questions or comments:

Luna Community College
Finance and Administration
366 Luna Drive
Las Vegas, NM 87701
www.luna.edu
Phone: (505) 454-5328

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2011**

| | Luna Community College | Component Unit Luna Foundation |
|---|------------------------------|--------------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,340,877 | 645,128 |
| Student accounts receivable, net of allowance of \$440,525 | 80,959 | - |
| Grants receivable | 1,897,580 | - |
| Other receivables | - | 118 |
| Inventories | 165,649 | - |
| Total current assets | <u>4,485,065</u> | <u>645,246</u> |
| Noncurrent Assets | | |
| Capital assets, net | 19,359,707 | - |
| Total noncurrent assets | <u>19,359,707</u> | <u>-</u> |
| Total assets | <u>\$ 23,844,772</u> | <u>645,246</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 164,468 | - |
| Accrued compensated absences | 262,513 | - |
| Deferred revenues | 521,644 | - |
| Total current liabilities | <u>948,625</u> | <u>-</u> |
| Noncurrent Liabilities | | |
| Accrued compensated absences | 53,456 | - |
| Total noncurrent liabilities | <u>53,456</u> | <u>-</u> |
| Total liabilities | <u>1,002,081</u> | <u>-</u> |
| NET ASSETS | | |
| Invested in capital assets | 19,359,707 | - |
| Nonexpendable | | |
| Scholarships | - | 210,000 |
| Expendable | | |
| Scholarships | - | 421,709 |
| Unrestricted | 3,482,984 | 13,537 |
| Total net assets | <u>22,842,691</u> | <u>645,246</u> |
| Total net assets and liabilities | <u>\$ 23,844,772</u> | <u>645,246</u> |

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2011**

| | Luna Community College | Component Unit Luna Foundation |
|--|------------------------------|--------------------------------------|
| Operating Revenues | | |
| Tuition and fees | \$ 1,285,138 | - |
| Tuition discounts and allowances | (613,879) | - |
| | <u>671,259</u> | |
| Federal grants and contracts | 4,426,502 | 50,000 |
| State and local grants and contracts | 1,104,624 | - |
| Private gifts and grants | 61,237 | 273,337 |
| Sales and services of auxiliary enterprises | 864,871 | - |
| Other | 518,284 | 49,962 |
| Total operating revenues | <u>7,646,777</u> | <u>373,299</u> |
| Operating Expenses | | |
| Instruction and general | | |
| Instruction | 5,139,901 | - |
| Academic support | 1,188,208 | - |
| Student services | 1,291,975 | - |
| Institutional support | 2,192,930 | 19,846 |
| Operation and maintenance of plant | 1,896,678 | - |
| Total instruction and general | <u>11,709,692</u> | <u>19,846</u> |
| Public service | 613,994 | - |
| Student aid grants and stipends | 3,992,871 | 7,224 |
| Tuition discounts and allowances | (613,879) | - |
| Auxiliary enterprises | 754,180 | - |
| Depreciation | 333,854 | - |
| Total operating expenses | <u>16,790,712</u> | <u>27,070</u> |
| Operating (loss) gain | <u>(9,143,935)</u> | <u>346,229</u> |
| Nonoperating revenues (expenses) | | |
| State appropriations | 12,527,834 | - |
| Local government appropriations - property tax | 1,562,706 | - |
| Interest and investment income | 47,868 | 7,434 |
| Net nonoperating revenues | <u>14,138,408</u> | <u>7,434</u> |
| Increase in net assets | 4,994,473 | 353,663 |
| Net assets, beginning of year | <u>17,848,218</u> | <u>291,583</u> |
| Net assets, end of year | <u>\$ 22,842,691</u> | <u>645,246</u> |

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011**

| | |
|---|------------------------------|
| Cash Flows From Operating Activities | |
| Tuition and fees | \$ 655,957 |
| Grants and contracts | 4,728,916 |
| Sales and services of educational activities | 864,871 |
| Other operating receipts | 518,284 |
| Payments to employees and suppliers | (16,443,617) |
| Net cash used by operating activities | <u>(9,675,589)</u> |
| Cash Flows From Noncapital Financing Activities | |
| State appropriations | 12,527,834 |
| Local appropriations | 1,562,706 |
| Net cash provided by noncapital financing activities | <u>14,090,540</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Cash paid for capital assets | 4,738,512 |
| Net cash used by capital and related financing activities | <u>(4,738,512)</u> |
| Cash Flows From Investing Activities | |
| Interest received on investments | 47,868 |
| Net cash provided by investing activities | <u>47,868</u> |
| Net decrease in cash and cash equivalents | (275,693) |
| Cash and cash equivalents, beginning of year | <u>2,616,570</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 2,340,877</u></u> |
| | |
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | |
| Operating loss | \$ (9,143,935) |
| Adjustments to reconcile operating (loss) to net cash used by operating activities | |
| Depreciation | 333,854 |
| Changes in assets and liabilities | |
| Receivables | (756,922) |
| Inventories | 1,571 |
| Accounts payable | 15,555 |
| Deferred revenues | (121,832) |
| Accrued compensated absences | (3,880) |
| Net cash used by operating activities | <u><u>\$ (9,675,589)</u></u> |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Luna Vocational Technical Institute was established with provision of 1967 Laws, Chapter 177 (Section 21-17-1 through 21-17-17, New Mexico Area Vocational School Act of 1978). In December of 2000, the College changed its name to Luna Community College to reflect the change from a vocational school to a community college.

The Luna Community College (the College) was created to provide vocational and technical education for the residents of its service area and the State of New Mexico to prepare them for the world of work. It is largely a post-secondary institution with some provisions to include high school students upon deliberate (concurrent enrollment) agreements with the secondary schools in the area.

The College maintains the general goal of providing educational and training programs designed to prepare its students in the area of marketable skills, for careers in technical and vocational fields, as well as to teach them how to best utilize skills in earning a living while also participating and contributing as productive citizens.

Therefore, the College is dedicated to: (1) the pursuit of excellence in its educational programs, (2) the simulation of actual occupational environments in its training systems, (3) the simulation of student interest and aptitude, (4) the administration of sound guidance and counseling service, (5) the provisions of administrative management and leadership in all its services and responsibilities, and (6) the facilitation of occupational placement for its students.

Instruction at the College is offered in six areas:

1. Adult Basic Education
2. Business Education Studies
3. Health Occupations
4. Technologies
5. Trade and Industrial Occupations
6. Associate of Applied Sciences, Associates of Arts, Associates of Science Degrees

The College is governed by an elected Board of Trustees, made up of seven representatives serving at large from the seven participating school districts served by the College. The seven school districts, within five counties, are East Las Vegas, West Las Vegas, Maxwell, Mora, Santa Rosa, Springer and Wagon Mound. The

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

College's president is the chief executive officer of the College responsible for the implementation and maintenance of board policies and administration to carry out the goals of the College within statutory and constitutional provisions. The President serves the College under the direction of the Board and reports directly to the Board.

The College is primarily funded by state appropriations with additional funding coming from federal and local sources. Each school district imposes a three-mill ad valorem tax to support the College. Additional resources include sales and service revenues, interest income, private gifts, grants, and contracts.

On July 1, 1988, Luna Community College became an institution of higher education under the jurisdiction of the Commission on Higher Education. Prior to this, the College had been under the jurisdiction of the State Department of Education.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This was followed in December 1999 by GASB Statement No. 35, Basic Financial Statements and management's Discussion and Analysis for Public Colleges and Universities. The financial statement presentation required by GASB No. 34 and 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

This statement provides for a significant change in financial reporting and is scheduled for a phased implementation. It has since been updated by GASB Statements 37 and 38. The Administration implemented all of these statements effective July 1, 2004.

Luna Community College Foundation, Inc. (Foundation)

The Foundation was organized as a not-for-profit New Mexico corporation under 501(c)(3) of the Internal Revenue Code. The Foundation receives support from contributions and earnings on investments. The Foundation does not issue separate financial statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Reporting Entity. In May 2002, Governmental Accounting Standards Board issued statement No. 39. The statement established standards for identifying a component unit through evaluation of the reporting entity and significance of certain related party transactions, defined as potential component units. In evaluating how to define the College for financial reporting purposes, management has evaluated the College's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability of responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the College.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the College is able to exercise oversight responsibilities. Based on the application of these criteria, the following is a brief review of each potential component unit addressed in defining the College's reporting entity.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the College. The decision to include a potential component unit in the College's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Luna Community College Foundation, Inc. is a discretely presented component unit and is included in these financial statements.

Basis of Budgetary Presentation. The accompanying supplemental information; Combined Revenues and Expenditures Budget Comparisons - Unrestricted and Restricted - all operations, Unrestricted Current Funds - Summary of Instruction and General Revenues and Expenditures Budgets and Comparisons and Restricted Current Funds - Summary of Instruction and General Revenue and Expenditures Budget Comparisons, for the year ended June 30, 2011, are prepared on the basis of accounting prescribed by the State of New Mexico, Higher Education Department (HED). HED requires budgets to be on a basis consistent with the financial reporting model used by the College prior to implementation of GASB statements No. 34 and 35. Additions to capital assets is reported as expenditures on the budget basis, but not on the basis required by generally accepted accounting principles (GAAP). Depreciation expense and scholarship allowances are GAAP requirements not included in the budget basis submitted to the HED.

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Procedures for Approval of Operating Budgets:

1. The institution will then submit an original typed copy that has been approved by the Board of Trustees to the HED's office by May 1 of the preceding fiscal year.
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 1.
4. During the year revisions to the budget are prepared and sent to HED for approval. A final budget revision is due on May 1 of the current fiscal year.

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, per the General Appropriation Act of 2003, Chapter 76, Laws of 2003.

Budgetary Control. 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 unrestricted expenditures in instruction and general; (3) total restricted expenditures in instruction and general. 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.

Cash and Cash Equivalents. For purposes of the statement of cash flows, cash and cash equivalents include demand, savings, and money market accounts with an original maturity of 3 months or less.

Inventories. Inventories are recorded at first-in, first-out (FIFO) and are valued at the lower of cost or market.

Income Taxes. The College, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the College are deductible by donors as provided under Section 170 of the Internal Revenue Code and consistent with the provisions under Section 501 (c)(3) of the Internal Revenue Code.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Accounts Receivable. The College records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. In addition, bookstore, daycare, and cafeteria charges are recorded when incurred. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses. Grants receivables consist of unreimbursed expenditures on federal, state, and private grants.

Deferred Income. Revenue includes amounts received from grant and contract sponsors that have not been earned.

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. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The College does not capitalize historical treasures, works of art or library books.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 years for buildings, infrastructure and land improvements, and 5 to 12 years for equipment (including software).

Compensated Absences. The College accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. Accrued vacation up to 240 hours is recorded at 100% of the employee hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA).

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

Invested in Capital Assets. This represents the College's total investment in capital assets, net of any 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.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Assets - Expendable. Expendable restricted net assets are resources that the College is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

Unrestricted Net Assets. Unrestricted net assets represent 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 unrestricted, and then toward restricted resources.

Classification of Revenues. The College has classified its revenues either as operating or nonoperating 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.

Nonoperating Revenues. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB No. 9 Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting and GASB No. 34, such as state appropriations.

Significant Concentration of Credit Risk. The College is dependent on state funding, local property tax levy, and tuition payments from students for its operating budget. In addition, the College receives the majority of its restricted revenues from federal sources. Its student population is derived primarily from Northeastern New Mexico Communities.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Appropriation. The College receives special appropriations during the year. When an expense is incurred that can be paid using either unrestricted or special appropriation resources, the College's policy is to first apply the expense toward the special appropriation. The special appropriation funds are non-reverting, and the College received permission to carryover the funds for another year. The College received \$181,900 for its Nursing program of which \$119,613 was spent during the year and \$62,287 is encumbered for fiscal year 2012. The special appropriation expires on June 30, 2012.

NOTE 2. CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to them. The College does not have its own deposit policy for credit risk, but follows New Mexico Statute Section 6-10-17, requiring collateral equal to at least one-half of the amount of uninsured public monies on deposit. As of June 30, 2011, none of the College's bank balance of \$3,154,947 was subject to custodial credit risk because it was neither uninsured nor uncollateralized.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 3. CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended June 30, 2011:

| | Balance June 30, 2010 | Additions/ Reclassifications | Transfers | Retirement | Balance June 30, 2011 |
|---|-----------------------------|---------------------------------|-----------|------------|-----------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 2,322,078 | - | - | - | 2,322,078 |
| Construction in progress | 1,544,454 | 4,658,519 | - | - | 6,202,973 |
| | <u>\$ 3,866,532</u> | <u>4,658,519</u> | <u>-</u> | <u>-</u> | <u>8,525,051</u> |
| Other capital assets | | | | | |
| Buildings | \$ 22,912,497 | - | - | - | 22,912,497 |
| Building improvements | 4,754,696 | - | - | - | 4,754,696 |
| Infrastructure | 737,625 | - | - | - | 737,625 |
| Automobiles | 588,698 | - | - | - | 588,698 |
| Equipment and furniture | 5,933,899 | 79,992 | - | - | 6,013,891 |
| | <u>34,927,415</u> | <u>79,992</u> | <u>-</u> | <u>-</u> | <u>35,007,407</u> |
| Less accumulated depreciation for | | | | | |
| Buildings | 15,509,547 | 302,465 | - | - | 15,812,012 |
| Building improvements | 2,264,751 | 160,933 | - | - | 2,425,684 |
| Infrastructure | - | - | - | - | - |
| Automobiles | 508,775 | (1,043) | - | - | 507,732 |
| Equipment and furniture | 5,555,825 | (128,501) | - | - | 5,427,324 |
| | <u>23,838,898</u> | <u>333,854</u> | <u>-</u> | <u>-</u> | <u>24,172,752</u> |
| Other capital assets, net | <u>\$ 11,088,517</u> | <u>(253,862)</u> | <u>-</u> | <u>-</u> | <u>10,834,655</u> |
| | | | | | |
| | Balance June 30, 2010 | Additions | Transfers | Retirement | Balance June 30, 2011 |
| Capital assets summary | | | | | |
| Capital assets not being depreciated | \$ 3,866,532 | 4,658,519 | - | - | 8,525,051 |
| Other capital assets at cost | 34,927,415 | 79,992 | - | - | 35,007,407 |
| | <u>38,793,947</u> | <u>4,738,511</u> | <u>-</u> | <u>-</u> | <u>43,532,458</u> |
| Less accumulated depreciation | <u>23,838,898</u> | <u>333,854</u> | <u>-</u> | <u>-</u> | <u>24,172,752</u> |
| Capital assets, net | <u>\$ 14,955,049</u> | <u>4,404,657</u> | <u>-</u> | <u>-</u> | <u>19,359,706</u> |

Depreciation expense for the year ended June 30 2011 was \$333,854.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 4. LONG-TERM LIABILITIES

Long-term liability activity for the College for the year ended June 30, 2011, is as follows:

| | Balance June 30, 2010 | Additions | Deletions | Balance June 30, 2011 | Due Within One Year |
|------------------------------|-----------------------------|-----------|-----------|-----------------------------|---------------------------|
| Accrued compensated absences | \$ 319,849 | 251,196 | 255,076 | 315,969 | 262,513 |

NOTE 5. PENSION PLAN - EDUCATIONAL RETIREMENT BOARD

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

Funding Policy. As of July 1, 2009, House Bill 854 increased plan members' contributions to 9.4%. The College is required to contribute 10.9% of the gross covered salary. Employees earning \$20,000 or less (on a full-time annualized basis) contribute 7.9% of gross salary and the College contributes 12.4%. As of July 1, 2011, the contribution required by employees earning more than \$20,000 will increase to 11.15% and the College contribution will decrease to 9.15%. The contribution rates remain unchanged for employees earning \$20,000 or less. The contribution requirement 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. Luna Community College's contributions to ERB for the fiscal years ending June 30, 2011, 2010 and 2009, were \$1,202,512, \$1,299,720 and \$1,231,462, respectively, which equal the amount of the required contributions for each fiscal year.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 6. POST EMPLOYMENT BENEFITS

Plan Description. Luna Community 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 N.E., Suite 104, Albuquerque, New Mexico 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

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 6. POST EMPLOYMENT BENEFITS (CONTINUED)

authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.833% of each participating employee's annual salary; each participating employee was required to contribute 1.666% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013, the contribution rates for employees and employers will rise as follows:

FY 11 Employer 1.666%, Employee .833%; FY 12 Employer 1.834%, Employee .917%; FY 13 Employer 2.000%, Employee 1.000%. Also employers joining the program after 1/1/98 are required to make surplus-amount contributions to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and the retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The College's contributions to the RHCA for the years ended June 30, 2011, 2010 and 2009 were \$147,125, \$125,003 and \$124,344, respectively, which equal the required contributions for each year.

NOTE 7. SURETY BOND/INSURANCE

The College is covered by the New Mexico Public Schools Insurance Authority (NMPSIA) as required by statute. Additional insurance, beyond that required by statute, has also been acquired to guard against risks.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 8. COMMITMENTS AND CONTINGENCIES

There were two construction obligations remaining at June 30, 2011, Franken Construction and ORR for \$1,364,520 and \$26,586, respectively.

The College is liable or contingently liable in connection with certain claims, which arise in the normal courses of its activities. It is the opinion of management that uninsured losses resulting from these claims would not be material to the College's financial position.

The College receives governmental grants, which may be refundable in the event that all terms of the grants are not complied with. In the opinion of management, no material refunds will occur.

NOTE 9. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied each year on July 1 on the taxable valuation of property located in the College as of the preceding January 1. The taxable valuations for the various classes of property are determined by the San Miguel, Guadalupe, Mora and Colfax County Assessors. The rate of taxes for operating purposes for all taxing jurisdictions is limited by the State Constitution to 5 mils (\$5 per \$1,000 assessed valuation). Taxes are payable in two equal installments due on November 10 and April 10 and become delinquent after 30 days. The College cannot reasonably estimate the amount of property taxes receivable due to lack of information. Property taxes are not accrued for in the accompanying financial statements beyond what was received with the first sixty days of the fiscal year. However, the College estimates the net receivable amount to be immaterial to the financial statements.

NOTE 10. RECONCILIATION OF BUDGET BASIS TO GAAP - REVENUES AND EXPENSES

| | Revenues | Expenses |
|--|------------------------|-------------------|
| Budget basis (revenues) / expenditures | \$ (22,399,064) | 21,809,912 |
| Agency funds | - | (664) |
| Capital expenditures | - | (4,738,511) |
| Depreciation | - | 333,854 |
| Scholarship allowance | <u>613,879</u> | <u>(613,879)</u> |
| GAAP basis (revenue) / expense | <u>\$ (21,785,185)</u> | <u>16,790,712</u> |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 11. FOUNDATION CASH AND CASH EQUIVALENTS

The following table provides information concerning the custodial credit risk assumed by the Foundation at year-end. Actual bank balances are shown because they reflect the current relationship between the deposits and corresponding collateral. The source of the Foundation's cash does not meet the definition of public monies. Therefore, the Foundation does not require collateralization.

| | Federally Insured | Insured and Collateralized | Uninsured and Un- Collateralized | Total Depository Balances |
|-------------------------|----------------------|-------------------------------|--|---------------------------------|
| Demand deposits | | | | |
| Community First Bank | \$ 283,045 | - | - | 283,045 |
| Certificates of deposit | | | | |
| Community First Bank | 102,306 | - | - | 102,306 |
| Bank of Las Vegas | 250,000 | - | 9,800 | 259,800 |
| | <u>\$ 635,351</u> | <u>-</u> | <u>9,800</u> | <u>645,151</u> |

NOTE 12. FOUNDATION NONEXPENDABLE FUNDS

The College has elected the endowment option within the Title V grant in accordance with EDGAR Part 628 APPLICABLE ENDOWMENT CHALLENGE GRANT PROGRAM REGULATIONS FOR TITLE III, PART AND TITLE V, HSI. The Title V grant of \$50,000 was matched in a like amount by the Foundation.

The provisions of the grant require that the endowment corpus along with at least 50% of the income be invested for 20 years after which time the entire amount may be expended for the restricted purpose. Up to 50% of that income can be expended annually in accordance with the above noted provisions.

NOTE 13. CAPITAL OUTLAY APPROPRIATION

| | Appropriation Period | Award Amount | Expenditures to Date | Outstanding Balance |
|---------------------------------|-------------------------|-----------------|-------------------------|------------------------|
| Community Use Auditorium 062380 | 7/1/06-6/30/10 | \$ 2,000,000 | 1,980,000 | 20,000 |
| Community Use Auditorium 084946 | 7/1/08-6/30/12 | \$ 4,500,000 | 2,887,971 | 1,612,029 |

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
COMBINED REVENUES AND EXPENDITURES BUDGET COMPARISONS -
UNRESTRICTED AND RESTRICTED - ALL OPERATIONS
For the Year Ended June 30, 2011**

| | Original Budget | Final Budget | Actual | Actual Over (Under) Budget |
|--|--------------------|-----------------|------------|----------------------------------|
| Beginning Fund Balance | \$ 2,090,522 | 3,163,796 | 3,163,796 | - |
| Revenues: | | | | |
| State general fund appropriations | 7,844,600 | 7,590,000 | 7,590,000 | - |
| Federal revenue sources | 2,791,567 | 4,119,591 | 4,426,506 | 306,915 |
| Tuition and fees | 1,193,645 | 1,193,645 | 1,285,139 | 91,494 |
| Endowment, land and permanent fund | - | - | - | - |
| Private gifts, grants and contracts | 831,695 | 1,452,738 | 1,165,861 | (286,877) |
| Other | 3,303,593 | 10,208,521 | 7,931,558 | (2,276,963) |
| Total revenues | 15,965,100 | 24,564,495 | 22,399,064 | (2,165,431) |
| Expenditures: | | | | |
| Instruction | 5,282,713 | 6,263,233 | 5,139,494 | (1,123,739) |
| Academic support | 1,274,359 | 1,483,791 | 1,188,209 | (295,582) |
| Student services | 1,382,543 | 1,410,611 | 1,291,976 | (118,635) |
| Institutional support | 2,499,673 | 2,396,557 | 2,192,930 | (203,627) |
| Operation and maintenance of plant | 2,120,246 | 2,114,456 | 1,904,141 | (210,315) |
| Subtotal Instruction and general | 12,559,534 | 13,668,648 | 11,716,750 | (1,951,898) |
| Student social and cultural | 20,645 | 20,645 | 18,880 | (1,765) |
| Research | - | - | - | - |
| Public service | 532,269 | 675,536 | 613,994 | (61,542) |
| Student aid | 2,374,341 | 3,588,646 | 3,668,200 | 79,554 |
| Auxiliary enterprises | 706,173 | 839,144 | 755,250 | (83,894) |
| Intercollegiate athletics | 329,390 | 346,326 | 305,791 | (40,535) |
| Capital outlay | 200,000 | 6,405,888 | 4,658,519 | (1,747,369) |
| Renewal and replacements | 282,094 | 401,013 | 72,528 | (328,485) |
| Retirement of indebtedness | - | - | - | - |
| Total expenditures | 17,004,446 | 25,945,846 | 21,809,912 | (4,135,934) |
| Change in net assets (budgetary basis) | (1,039,346) | (1,381,351) | 589,152 | 1,970,503 |
| Ending fund balance | \$ 1,051,176 | 1,782,445 | 3,752,948 | 1,970,503 |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
UNRESTRICTED CURRENT FUNDS -
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES BUDGET COMPARISONS
For the Year Ended June 30, 2011**

| | Original Budget | Final Budget | Actual | Actual Over (Under) Budget |
|--|--------------------|-----------------|------------|----------------------------------|
| Beginning Fund Balance | \$ 1,400,158 | 2,386,935 | 2,386,935 | - |
| Revenues: | | | | |
| Tuition and fees | 1,173,000 | 1,173,000 | 1,260,721 | 87,721 |
| Government appropriations - federal | - | - | - | - |
| Government appropriations - state | 7,844,600 | 7,590,000 | 7,590,000 | - |
| Government appropriations - local | 1,716,677 | 1,716,677 | 1,562,706 | (153,971) |
| Grants and contracts - federal | 5,000 | 2,000 | 3,618 | 1,618 |
| Grants and contracts - state | - | 338,000 | 321,400 | (16,600) |
| Grants and contracts - local | - | - | - | - |
| Gifts, grants and contracts - private | 2,000 | - | 16,875 | 16,875 |
| Endowments, land and permanent fund | - | - | - | - |
| Sales and service | - | - | - | - |
| Other sources | 67,200 | 38,200 | 90,802 | 52,602 |
| Total revenues | 10,808,477 | 10,857,877 | 10,846,122 | (11,755) |
| Expenditures: | | | | |
| Instruction | 4,951,272 | 5,437,017 | 4,742,632 | (694,385) |
| Academic support | 641,408 | 630,198 | 589,970 | (40,228) |
| Student services | 1,239,109 | 1,209,959 | 1,221,596 | 11,637 |
| Institutional support | 2,499,673 | 2,396,557 | 2,192,930 | (203,627) |
| Operation and maintenance of plant | 2,008,346 | 1,891,495 | 1,681,180 | (210,315) |
| Total expenditures | 11,339,808 | 11,565,226 | 10,428,308 | (1,136,918) |
| Change in net assets - budgetary basis | (531,331) | (707,349) | 417,814 | 1,125,163 |
| Ending fund balance | \$ 868,827 | 1,679,586 | 2,804,749 | 1,125,163 |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
RESTRICTED CURRENT FUNDS -
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES BUDGET COMPARISONS
For the Year Ended June 30, 2011**

| | Original Budget | Final Budget | Actual | Actual Over (Under) Budget |
|--|--------------------|------------------|------------------|----------------------------------|
| Revenues: | | | | |
| Tuition and fees | \$ - | - | - | - |
| Government appropriations - federal | - | - | - | - |
| Government appropriations - state | 143,434 | - | - | - |
| Government appropriations - local | - | - | - | - |
| Grants and contracts - federal | 947,155 | 1,414,271 | 1,075,117 | (339,154) |
| Grants and contracts - state | 129,137 | 117,936 | 105,940 | (11,996) |
| Grants and contracts - local | - | - | - | - |
| Gifts, grants and contracts - private | - | 8,467 | 5,137 | (3,330) |
| Endowments, land and permanent fund | - | - | - | - |
| Sales and service | - | - | - | - |
| Other sources | - | 562,748 | 102,247 | (460,501) |
| | <u>1,219,726</u> | <u>2,103,422</u> | <u>1,288,441</u> | <u>(814,981)</u> |
| Cash balance budgeted | - | - | - | - |
| Total revenues and cash balance budgeted | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Expenditures: | | | | |
| Instruction | 331,441 | 826,216 | 396,862 | (429,354) |
| Academic support | 632,951 | 853,593 | 598,239 | (255,354) |
| Student services | 143,434 | 200,652 | 70,380 | (130,272) |
| Institutional support | - | - | - | - |
| Operation and maintenance of plant | 111,900 | 222,961 | 222,961 | - |
| Student aid | - | - | - | - |
| Total expenditures | <u>1,219,726</u> | <u>2,103,422</u> | <u>1,288,442</u> | <u>(814,980)</u> |
| Change in net assets - budgetary basis | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF CASH AND CASH EQUIVALENTS
Year Ended June 30, 2011

| Account Name | Type of Account | Balance Per Bank Statement | Reconciled Balance Per Books |
|-------------------------------------|------------------------|----------------------------|------------------------------|
| Wells Fargo | | | |
| Santa Rosa Account | Checking | \$ 4,672 | 4,672 |
| Springer Account | Checking | 4,842 | 4,885 |
| | Total | <u>9,514</u> | <u>9,557</u> |
| The Bank of Las Vegas | | | |
| General Disbursement | Checking | 2,241,025 | 1,587,503 |
| Payroll | Checking | 342,943 | 165,985 |
| Student Activity | Checking | 61,465 | 61,932 |
| | Total | <u>2,645,433</u> | <u>1,815,420</u> |
| 1st Community Bank / US Bank | | | |
| Time Certificate of Deposit | Certificate of Deposit | <u>500,000</u> | <u>515,900</u> |
| | Total | <u>\$ 3,154,947</u> | <u>2,340,877</u> |

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2011

| | Wells Fargo | The Bank of Las Vegas | 1st Community Bank |
|--|----------------|--------------------------|-----------------------|
| Total amount on deposit at bank in checking accounts | \$ 9,514 | 2,645,433 | - |
| Total amount on deposit at bank in certificates of deposit | - | - | 500,000 |
| Less FDIC Insurance | 9,514 | 250,000 | 250,000 |
| | <hr/> | | |
| Total uninsured public funds | \$ - | 2,395,433 | 250,000 |
| | <hr/> | | |
| 50% collateral requirement (Section 6-10-17 NMSA 1978) | \$ - | 1,197,717 | 125,000 |
| | <hr/> | | |
| Security | CUSIP No. | Location | Maturity |
| U.S. Treasury | 313372NX8 | Home Loan Bank/Dallas | 11/28/2014 |
| U.S. Treasury | 3133XSWM6 | Home Loan Bank/Dallas | 1/23/2012 |
| U.S. Treasury | 3133XVNT4 | Home Loan Bank/Dallas | 12/14/2012 |
| Farmington NM Mun Sch Dist Nos | 311441HZ5 | | 09/01/18 |
| | | - | 500,000 |
| | | - | 500,000 |
| | | - | 1,000,000 |
| | | - | 200,000 |
| | | - | - |
| | | - | 200,000 |
| | | - | 2,000,000 |
| | | - | 200,000 |
| | | - | 802,283 |
| Amount over (under) collateralized | \$ - | 802,283 | 75,000 |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE**

Schedule of Memorandums of Understanding
For The Year Ended June 30, 2011

| <u>Participants</u> | <u>Administering Agency Responsible Party</u> | <u>Description</u> | <u>Begin Date</u> | <u>End Date</u> | <u>Total Amount</u> | <u>LCC Amount</u> | <u>Amount Expended as of 06/30/2011</u> | <u>Audit Party</u> | <u>Fiscal Agent</u> | <u>Reporting Agency</u> |
|--|---|--|-------------------|-----------------|---------------------|-----------------------|---|------------------------|-------------------------|-----------------------------|
| LCC / SMCDC | LCC | GED Prep/Literacy Improvement/Work Readiness Classes | 6.29.10 | 6.30.11 | \$ - | \$ - | \$ - | LCC | LCC | Both |
| LCC / NM Association of Counties | LCC | Public Safety Seminar | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Raton School District | LCC | School Facility Use Agreement | 5.10.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / NMDOH | NMDOH | CDSMP Project Management | 7.1.10 | 1.31.12 | 55,356 | 55,536 | - | LCC | LCC | Both |
| LCC / WLVS FSCS | WLVS | Positive Academic Promo | 7.23.10 | | - | - | - | LCC | LCC | Both |
| LCC / Maxwell Municipal Schools | LCC | Concurrent Enrollment / Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Las Vegas City Schools | LCC | Concurrent Enrollment / Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / La Familia Medical Center | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / Mora Independent Schools | LCC | Concurrent Enrollment / Dual Credit | 8.17.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / GEO Group - Guadalupe County Correctional Facility | LCC | Educational Services | 8.25.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / SMCDC | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / LVCYFD | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / Mora Community Health Services | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / Guadalupe County Hospital | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / El Centro Family Health | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / WLVS | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / SFCC | LCC | Facility Use | 7.1.10 | 6.30.11 | 8,200 | 8,200 | - | LCC | LCC | Both |
| LCC / Pecos Independent Schools | LCC | Student Smart Lab | 9.30.10 | 9.30.11 | - | - | - | LCC | LCC | Both |
| LCC / NMHU | NMHU | BCS Grant | 10.1.10 | 9.30.11 | 279,091 | 279,091 | - | LCC | LCC | Both |
| LCC / UNMH | LCC | Clinical Instruction | 11.1.10 | Termination | - | - | - | LCC | LCC | Both |
| LCC / NMHU | LCC / NMHU | SMET Articulation/Transfer | 10.11.10 | 10.11.11 | - | - | - | LCC | LCC | Both |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE**

Schedule of Memorandums of Understanding
For The Year Ended June 30, 2011

| <u>Participants</u> | <u>Administering Agency Responsible Party</u> | <u>Description</u> | <u>Begin Date</u> | <u>End Date</u> | <u>Total Amount</u> | <u>LCC Amount</u> | <u>Amount Expended as of 06/30/2011</u> | <u>Audit Party</u> | <u>Fiscal Agent</u> | <u>Reporting Agency</u> |
|---|---|--|-------------------|-----------------|---------------------|-----------------------|---|------------------------|-------------------------|-----------------------------|
| LCC / NMHU | LCC / NMHU | Sports Performance Articulation/Transfer | 10.1.10 | 10.1.11 | - | - | - | LCC | LCC | Both |
| LCC / LVCS | LCC | Clinical Instruction | 8.1.10 | 8.30.12 | - | - | - | LCC | LCC | Both |
| LCC / HED / DFA | | Film Equipment/Technician Training | 12.1.10 | 6.30.11 | 150,000 | - | - | LCC | LCC | Both |
| LCC / WNMU | WNMU | Carl Perkins | 1.1.11 | 6.30.11 | 31,903 | - | - | LCC | LCC | Both |
| LCC / Mora Valley Dental Health Center | LCC | Clinical Instruction | 1.1.11 | 7.28.12 | - | - | - | LCC | LCC | Both |
| LCC / Cimarron Municipal Schools | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Springer High School | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Cuba Independent Schools | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Pecos Independent Schools | LCC | Concurrent Enrollment / Dual Credit | 12.8.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Maxwell Municipal Schools | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Raton High School | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / Santa Rosa Consolidated Schools | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / NMSU | LCC | Articulation | 2.10.11 | Termination | - | - | - | LCC | LCC | Both |
| LCC / SFCC / TAACCCT | LCC | Education & Career Training | 4.15.11 | Termination | - | - | - | LCC | LCC | Both |
| LCC / NMDOH | LCC | CDSPM Training | 3.18.11 | 6.30.11 | 10,000 | - | - | LCC | LCC | Both |
| LCC / WLVS | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |
| LCC / NMHU | LCC | Transfer Agreement | 3.24.11 | 3.24.12 | - | - | - | LCC | LCC | Both |
| LCC / NM Association of Counties | LCC | Public Safety Seminar | 7.1.11 | 6.30.12 | - | - | - | LCC | LCC | Both |
| LCC / SMCDC | LCC | GED Prep/Literacy Improvement/Work Readiness Classes | 7.1.11 | 6.30.12 | - | - | - | LCC | LCC | Both |
| LCC / SUNM | LCC | Transfer Agreement | 5.5.11 | 5.5.12 | - | - | - | LCC | LCC | Both |
| LCC / WLVS | LCC | Concurrent Enrollment / Dual Credit | 5.4.11 | 6.30.12 | - | - | - | LCC | LCC | Both |
| LCC / WLVS | LCC | Dual Credit | 7.1.10 | 6.30.11 | - | - | - | LCC | LCC | Both |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011**

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Subaward Number | Federal Expenditures |
|---|---------------------------|---------------------|----------------------------|
| United States Treasury | | | |
| National Service Award (Americorps) | 94.006 | N/A | <u>2,000</u> |
| United States Small Business Administration | | | |
| Passed through the New Mexico Small Business Development Center | 59.037 | 4-603001-Z-0032-20 | <u>21,689</u> |
| United States Department of Education | | | |
| Student Financial Aid Cluster of Programs | | | |
| SEOG | 84.007 | P007A102645 (10-11) | 50,572 |
| College Work Study | 84.033 | P033A102645 (10-11) | 34,422 |
| PELL Grant | 84.063 | P063P103271 (10-11) | 2,718,559 |
| Academic Competitiveness Grant | 84.375 | P375A083271 (10-11) | 6,254 |
| Total Student Financial Aid Cluster | | | <u>2,809,807</u> |
| Title V | 84.031 | P031S070001-10 | 585,304 |
| Passed through the State of New Mexico Higher Education Department NMORRA ARRA | 84.394A | S394A090032 (A) | 222,961 |
| Adult Basic Education | 84.022 | 689888 (10-11) | 43,066 |
| Passed through New Mexico Highlands University Title V | 84.031C | P031C0880040-09 | 195,590 |
| Passed through Western New Mexico University Carl Perkins | 84.048 | P00050890 WNMU | 28,196 |
| Total Department of Education | | | <u>3,884,924</u> |
| United States Department of Health and Human Services | | | |
| Passed through the University of New Mexico AHEC | 93.107 | HRSA#U77HP03032-15 | 60,510 |
| Passed through the New Mexico Department of Health Chronic Disease Self-Management Program | 93.725 | 11966 | <u>52,320</u> |
| Total Federal Expenditures | | | <u><u>\$ 4,021,443</u></u> |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE 2. STUDENT FINANCIAL ASSISTANCE

The College administers the Federal Direct Loan Program (CDFA 84.268). During the fiscal year ended June 30, 2011, the College processed \$421,471 of new loans under the Federal Direct Loan Program. The amounts processed under the direct loan program are included on the Schedule of Expenditures of Federal Awards.

NOTE 3. OTHER DISCLOSURES

The College did not receive any non-cash assistance, there was no insurance in effect during the year and no federal loan guarantees are outstanding at year end.

SINGLE AUDIT SECTION

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*

To the Board of Trustees of
Luna Community College
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of Luna Community College (College) and its discretely presented component unit and the budget comparison presented as supplemental information as of and for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

To the Board of Trustees of
Luna Community College
and
Mr. Hector H. Balderas
New Mexico State Auditor

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we considered to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting listed as findings 09-03, 11-01, and 11-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our audit disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a matter that is required to be reported per Section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of findings and questioned costs as item 11-05.

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

To the Board of Trustees of
Luna Community College
and
Mr. Hector H. Balderas
New Mexico State Auditor

This report is intended solely for the information and use of the Board of Trustees, Foundation, other within the entity, the New Mexico Higher Education Department, the New Mexico State Auditor, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

Mess Adams LLP

Albuquerque, New Mexico
November 10, 2011

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

To the Board of Trustees of
Luna Community College
and
Mr. Hector H. Balderas
New Mexico State Auditor

Compliance

We have audited the compliance of Luna Community College (College) compliance with the types of compliance requirements described in *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, 2011. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

To the Board of Trustees of
Luna Community College
and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the College complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 11-03 and 11-04.

Internal Control Over Compliance

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

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

To the Board of Trustees of
Luna Community 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weakness*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies s described in the accompanying schedule of findings and questioned costs as items 11-03 and 11-04. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Mess Adams LLP

Albuquerque, New Mexico
November 10, 2011

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

| | | |
|---------------|-------------------------------|------------------|
| Finding 09-02 | Fixed Assets/Disbursements | Resolved |
| Finding 09-03 | Foundation Accounting Records | Repeated/Revised |
| Finding 10-02 | Vacation/Sick Leave | Resolved |
| Finding 05-01 | Payroll | Resolved |
| Finding 10-01 | Travel and Entertainment | Resolved |

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies(s) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| | Student Financial Aid Cluster |
| 84.007 | SEOG |
| 84.033 | Federal Workstudy |
| 84.063 | Pell Grant |
| 84.375 | ACG |
| 84.268 | Federal Direct Student Loans |
| 84.031 | Title V |

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes no

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

Section II - Financial Statement Findings

09-03 FOUNDATION ACCOUNTING PROCESS (SIGNIFICANT DEFICIENCY)

CONDITION/CONTEXT

During the testing of the financial close and reporting cycle it was noted that cash reconciliations for the entire year were all performed subsequent to year-end. There was no formalized review process performed on the financial statements as of October 7, 2011. It was also noted that there were no segregation of duties for the individual receiving the cash receipts and the individual recording them.

CRITERIA

Bank reconciliations are needed to identify errors, irregularities, and adjustments for Cash accounts. To be effective they need to be reviewed in a timely manner. Financial statements review is important for management to be able to identify problem areas and potential mistakes in the financial statements. Segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. Segregation of Duties is especially important when dealing with cash.

CAUSE

The failure to monitor reconciliation in a timely manner was due to the reconciliations not being completed until June. The failure to review financial information is a result of a lack of formalized process and the failure to segregate duties is a result of having only one employee of the foundation.

EFFECT

Failure to monitor cash reconciliations in a timely manner could result in the inability to collect amounts owed to the Foundation or overpayment by the Foundation. Not performing financial statement reviews could result in mistakes in the financial statements. Furthermore, the lack of segregation of duties in cash receipts could result in loss of cash.

RECOMMENDATION

We recommend that the Foundation implement monthly reconciliation procedures that include Executive Director Review of monthly reconciliations. We also

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

**09-03 FOUNDATION ACCOUNTING PROCESS (SIGNIFICANT DEFICIENCY)
(CONTINUED)**

recommend developing a formal review of the financial statements on a annual basis as well as financial information on a monthly basis. In addition, we recommend that the Foundation separate the receiving function from the recording function for cash receipts.

MANAGEMENT RESPONSE

In response to the Audit finding the Foundation is in touch with the Foundation's Accountant and is working on having all reconciliations reviewed and completed monthly. The Executive Director will meet with the Treasurer once a month to look over bank reconciliations and financial statements. The board will review them at the monthly board meetings.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

11-01 SEGREGATION OF DUTIES (SIGNIFICANT DEFICIENCY)

CONDITION/CONTEXT

During testing we noted certain transaction cycles that do not have proper segregations of duties. In the Tuition and Fees control cycle, it was noted that one employee is responsible for the posting of financial journal entries and has custody of AR detailed listing. In the Financial Close and Reporting Cycle, it was noted the one employee has the ability to write Journal Entries with another employee under them reviewing them. We also noted that there is no review process to ensure depreciation is being properly recorded.

CRITERIA

Segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions.

CAUSE

The failure to have proper segregation of duties and depreciation controls is a result of the College not having adequate procedures in place.

EFFECT

The lack of segregation of duties could lead to misstatements in the financial statements as well as inappropriate actions by employees. The lack of controls for depreciation could lead to a misstatement of depreciation.

RECOMMENDATION

We recommend the College needs to develop accounting policies and practices that provide adequate segregation of duties for the posting and custody of the Accounts Receivable listings as well as proper reviews of journal entries. For depreciation the College should develop a process of reviewing and ensuring that depreciation is being calculated correctly.

MANAGEMENT RESPONSE

Luna Community College respectfully acknowledges the finding and has taken the following steps to ensure that it is addressed:

1. The College will consider making the Student Accounts manager position one separate from the Controller but until then, the Grants manager and the controller will review and sign off on one another's adjustments.
2. The CFO or designee will review the depreciation calculations closely.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

11-02 FIXED ASSET INVENTORY (SIGNIFICANT DEFICIENCY)

CONDITION/CONTEXT

While physical inventories are taken of the fixed assets, these inventories are not being reconciled to the listing, resulting in assets that the College no longer has that are still maintained within the accounting system.

CRITERIA

Sound accounting practices state that, to ensure that amounts are properly reflected in the accounting system, appropriate reconciliations should be performed for sub ledgers.

CAUSE

Formalized processes were not in place to ensure that the fixed asset sub ledger was properly reconciled.

EFFECT

Fixed assets are misstated as there are assets still maintained in the accounting system that the College no longer has.

RECOMMENDATION

The College should develop formalized policies and procedures to ensure that the physical inventory is being properly reconciled to the general ledger.

MANAGEMENT RESPONSE

Luna Community College respectfully acknowledges the finding and has taken the following steps to ensure that it is addressed:

Procedures will be drafted for removal of fixed assets from the listing for items Luna Community College no longer has. Procedures will include:

1. thorough search of any item on the fixed assets list not located during inventory check.
2. preparation of a listing of any such items.
3. approval of the listing by CFO and President.
4. removal of items on the listing to reconcile the list to the inventory records.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

Section III - Federal Award Findings and Questioned Costs

**11-03 STUDENT FINANCIAL AID – RETURN TO TITLE IV
(SIGNIFICANT DEFICIENCY/NON COMPLIANCE)**

Federal program information:

Funding agency: U.S. Department of Education

Title: Student Financial Aid Cluster

CFDA Number : Various

CONDITION/CONTEXT

During our test work of the Student Financial Aid program, we determined that the total semester days were not calculated correctly. The amount of number of days of no classes was understated for the Spring semester, which resulted in overstatement of \$161 of the institution's portion of the student returns.

CRITERIA

Per 34 CFR section 668.22(e)(2), the amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the students' withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of more than 60 percent of (1) the calendar days in the payment period or period of enrollment for a program measured in credit hours.

Additionally, per 34 CFR section 668.22(f), the percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in credit hours by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date. The total number of calendar days in a payment or enrollment period includes all days within the period, except that institutionally scheduled breaks of at least 5 consecutive calendar days and days in which the student was on an approved leave of absence are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

**11-03 STUDENT FINANCIAL AID – RETURN TO TITLE IV
SIGNIFICANT DEFICIENCY/NON COMPLIANCE) (CONTINUED)**

Also, per 34 CFR section 668.22(j), an institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: (1) payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew.

Lastly, per 34 CFR section 668.173(b), returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew.

Questioned Costs:

None noted.

CAUSE

The number of days off used in the Spring semester return calculation did not include weekends. Therefore the total days in the semester were overstated resulting in miscalculation of required return amounts.

EFFECT

Improper calculation of days for scheduled breads could result in incorrect refunding of federal fund. Also, failure to return funds timely could result in improper use of federal funds.

RECOMMENDATION

We recommend that the College ensures that the return review process is designed to capture errors in the inclusion and/or exclusion of days and in the payment processing procedures.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

**11-03 STUDENT FINANCIAL AID – RETURN TO TITLE IV
SIGNIFICANT DEFICIENCY/NON COMPLIANCE) (CONTINUED)**

MANAGEMENT RESPONSE

Luna Community College respectfully acknowledges the finding and have taken the following steps to ensure that it is addressed:

As a department, we will ensure that the inclusion and/or exclusion of days will now be accounted for when performing any Return to Title IV funds. A closer watch of the Spring semester academic calendar will be conducted to ensure accurate reporting and minimize erroneous reports. In addition, a separate staff member will be assigned to review any calculation(s) before they are submitted.

Additionally, the College will consider restructuring the Department to develop a fully cross-trained Associate Director to the expert level to share the cross-checking responsibilities with the Director.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

**11-04 STUDENT FINANCIAL AID – ENROLLMENT REPORTING
(DIRECT LOAN) (Significant Deficiency/Non-Compliance)
(CONTINUED)**

Federal program information:

Funding agency: U.S. Department of Education

Title: Student Financial Aid Cluster

CFDA Number: Various

CONDITION/CONTEXT

During our test work of the Student Financial Aid program, we determined that student status changes were not being properly reported in the National Student Loan Data System.

CRITERIA

Per 34 CFR Section 685.309, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via NSLDS (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

QUESTIONED COSTS

None noted.

EFFECT

Failure to report student status changes timely or correctly increases the risk of errors and could result in improper use of federal funds.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

**11-04 STUDENT FINANCIAL AID – ENROLLMENT REPORTING
(DIRECT LOAN) (Significant Deficiency/Non-Compliance)
(CONTINUED)**

CAUSE

Student status changes were not reported on the NSLDS web site for the Spring Semester, and the effective date of student status changes were reported incorrectly for the Fall Semester.

RECOMMENDATION

We recommend that the College ensures that the student status changes review process is designed to capture errors in the reporting of student status change information to and ensure information is reported timely.

MANAGEMENT RESPONSE

Luna Community College respectfully acknowledges the finding and has taken the following steps to ensure that it is addressed:

As a Department, the financial aid staff has noted that NSLDS updates will be done accordingly and made within the allotted time frame. NSLDS will be updated immediately following any (below half-time or complete) withdrawal, or once a graduate listing is obtained from the Registrar's office. The process will be carefully monitored and will be performed accurately to assist in the elimination of future reporting errors. Also, a reminder will be added to the Financial Aid master calendar to assist in the maintenance of NSLDS.

Additionally, the College will consider restructuring the Department to develop a fully cross-trained Associate Director to the expert level to share the cross-checking responsibilities with the Director.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

**Section IV - OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE,
SECTION 12-6-5, NMSA 1978**

11-05 BUDGET OVERAGES (NON-COMPLIANCE)

CONDITION/CONTEXT

The College exceeded its approved budget for the "Student Aid" category in its combined Restricted and Unrestricted budget by \$79,554.

CRITERIA

Per Title 5 of the New Mexico Administrative Code, Chapter 3, part4, paragraph 10, total expenditures of certain budgetary totals may not exceed the amount in the approved budget.

EFFECT

The College has not complied with budgetary compliance requirements for the "Student Aid" budget category as presented in the Budget Comparison schedule in the financial statements.

CAUSE

Luna Community College reviewed balances in December when midyear budget hearings are held in preparation of finalizing the current year budget as part of the ensuing year's budget preparation. At that time year to date Actuals *were* in line with the budget. The greatest variance was in PELL and Direct Loans. Enrollments had been flat yet the College increased PELL 25% over the previous year. When the mid-year review took place, after the fall largest disbursement, there was sufficient budget capacity for the remainder of the year. Due to more Pell and loan eligible students being processed during the remainder of the fiscal year, the projection was not sufficient by year end. Due to the timing of adjustments; the matter could not be rectified this year.

FY 10-11 was the first year the College had direct lending and used an estimate of \$300,000 with the Actual result being \$414,000.

While these expenditures are reimbursed, that is there are equal revenues; the volume of PELL and loan eligible students was greater than ever and exceeded the projection. Luna Community College has neither control over who applies for these

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

11-05 BUDGET OVERAGES (NON-COMPLIANCE) (CONTINUED)

aid sources nor who is eligible as they are federally controlled. In other words, whether or not we anticipated the above average increase, the College was obligated to process and issue the aid through our system regardless of our estimate, thus causing the over budget condition.

RECOMMENDATION

We recommend that budget and actual expenditures be monitored regularly to avoid budget overages.

MANAGEMENT RESPONSE

Luna Community College will double the budget capacity for PELL and loans future years beginning with FY 11-12 to ensure budget to actual remains within approved budget. Regular monitoring continues.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
EXIT CONFERENCE
June 30, 2011**

The contents of this report were discussed in the exit conference held on November 10, 2011 with the following in attendance:

Representing Luna Community College:

| | |
|----------------------|---------------------------------|
| Pete Campos | President |
| Donna Flores-Medina | Chief Financial Officer |
| Thomas Jerry Maestas | Board of Trustees Chairman |
| Tony Valdez | Board of Trustees Vice Chairman |
| Francina Martinez | Main Controller |
| Maria Sena | HR Technician |
| Miguel Martinez | Purchasing Director |

Representing Luna Community College Foundation:

| | |
|--------------|-------------------------------|
| Sarah Flores | Foundation Executive Director |
|--------------|-------------------------------|

Representing Moss Adams LLP:

| | |
|---------------|-----------|
| Scott Eliason | Partner |
| Mandy Huggard | In-Charge |

The financial statements were prepared with the assistance of Moss Adams LLP from the books and records of Luna Community College.