

State of New Mexico
Luna Community College

Financial Statements

June 30, 2014



INTRODUCTORY SECTION

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
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JUNE 30, 2014**

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LUNA COMMUNITY COLLEGE
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**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
OFFICIAL ROSTER
JUNE 30, 2014**

BOARD OF TRUSTEES

Name	Title
Abelino Montoya, Jr.	Chairman
Dan Romero	Vice Chairman
Kenneth Medina	Secretary
Frank E. Tenorio	Member
Ernie Chavez	Member
David Gutierrez	Member
Tony Valdez	Member

ADMINISTRATIVE OFFICIALS

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

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 7 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The Schedule of Cash and Cash Equivalents, Schedule of Pledged Collateral, Schedule of Memorandums of Understanding and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Cash and Cash Equivalents, Schedule of Pledged Collateral, Schedule of Memorandums of Understanding and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, in 2014 the College adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Albuquerque, New Mexico
November 14, 2014

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014. 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 to 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 position in one column, as is the presentation of its expense, revenues and the resulting change in net position, 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 Position presents the assets, liabilities and net position for the College as of the end of the fiscal year. The Statement of Net Position 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 position (assets minus liabilities).

Changes in total net position are based on the activity in the Statement of Revenues, Expenses, and Changes in Net Position 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, 2014**

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.

Condensed Summary of Net Position	2014	2013
Assets		
Current assets	\$ 3,864,761	\$ 3,413,348
Capital assets, net of accumulated depreciation	18,866,393	19,872,153
Total Assets	\$ 22,731,154	\$ 23,285,501
Liabilities		
Current liabilities	971,931	886,990
Noncurrent liabilities	9,276	9,334
Total Liabilities	\$ 981,207	\$ 896,324
Net Position		
Net investment in capital assets	18,866,393	19,872,153
Restricted for expendable capital projects	-	-
Unrestricted	2,883,830	2,517,024
Total Net Position	\$ 21,750,223	\$ 22,389,177

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 \$3,864,761.

Current liabilities are amounts due within one year of \$971,931 and non-current liabilities, accrued compensated absences of \$9,276.

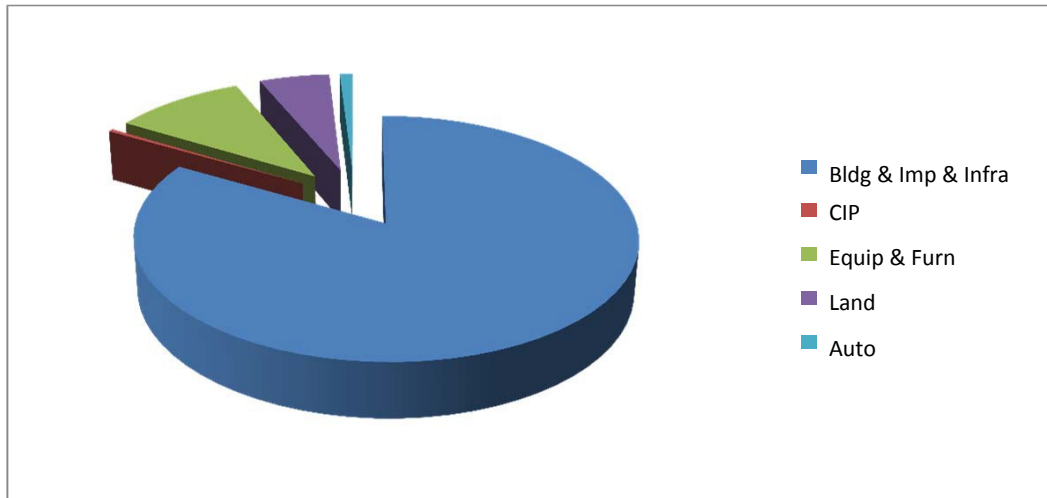
At June 30, 2014, the College's current ratio was nearly 4:1 comparing the amount of current assets, \$3,864,761 available to cover current liabilities, \$971,931. The largest category of non-current assets is capital assets, net of accumulated depreciation of \$18,866,393.

The Change in Net Position of 3% was not deemed significant for the College.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

REPORTING ENTITY (Continued)

Capital Assets at Cost



**Luna Community College
Condensed Summary of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013**

	2014	2013
Operating Revenues By Major Source		
Tuition	\$ 443,846	\$ 542,001
Contracts and grants	4,527,823	4,798,426
Sales and services of auxiliary enterprises	677,753	752,500
Other	214,966	173,716
Total	<u>\$ 5,864,388</u>	<u>\$ 6,266,643</u>
Operating Expenses By Major Function		
Instruction	4,602,369	4,651,494
Academic support	1,205,443	1,184,802
Student services	1,401,104	1,403,056
Institutional support	2,177,490	2,181,699
Operating and maintenance support	1,767,437	1,925,584
Public service	431,711	474,977
Student aid	2,304,849	2,663,828
Auxiliaries	788,926	736,257
Agency/Athletics/Student Activities	487,792	473,767
Depreciation	1,332,050	580,167
Total	<u>\$ 16,499,171</u>	<u>\$ 16,275,631</u>

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

REPORTING ENTITY (Continued)

Nonoperating Revenue (Expense)

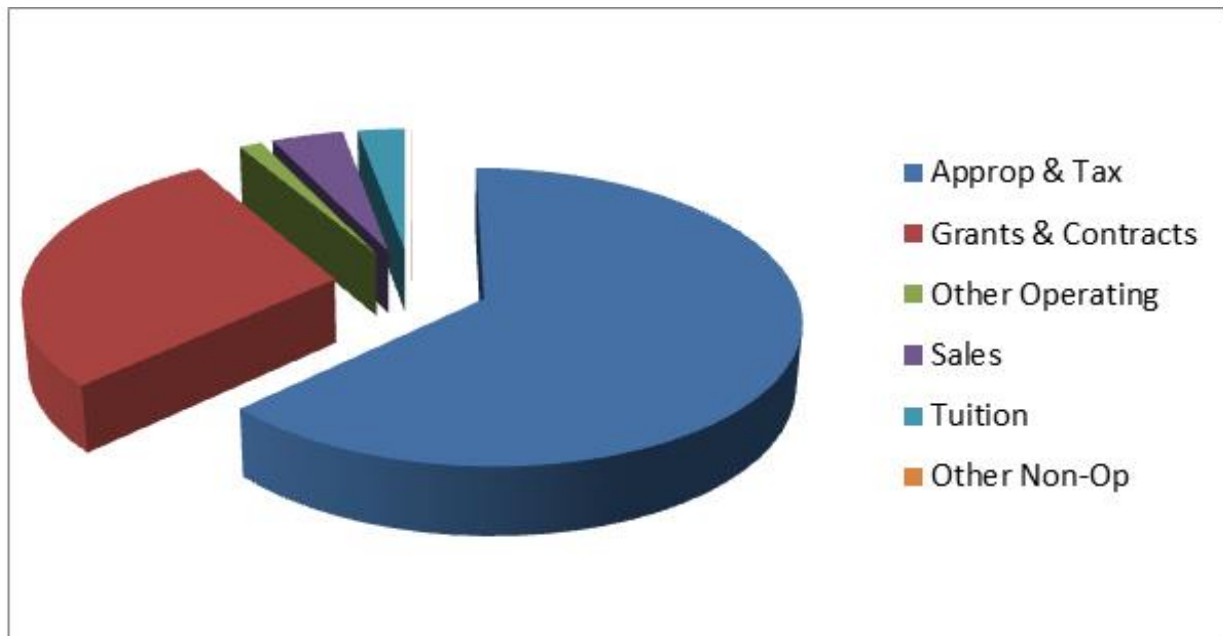
Appropriations	8,224,600	7,549,392
Other	1,771,229	1,997,637
Net nonoperating revenues	\$ 9,995,829	\$ 9,547,029
 (Decrease) increase in net position	 (638,954)	 (461,959)
 Net Position, Beginning of Year	 22,389,177	 22,851,136
Net Position, End of Year	\$ 21,750,223	\$ 22,389,177

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.

There were no significant changes in operations and Net Position only varied by 2.9%.

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

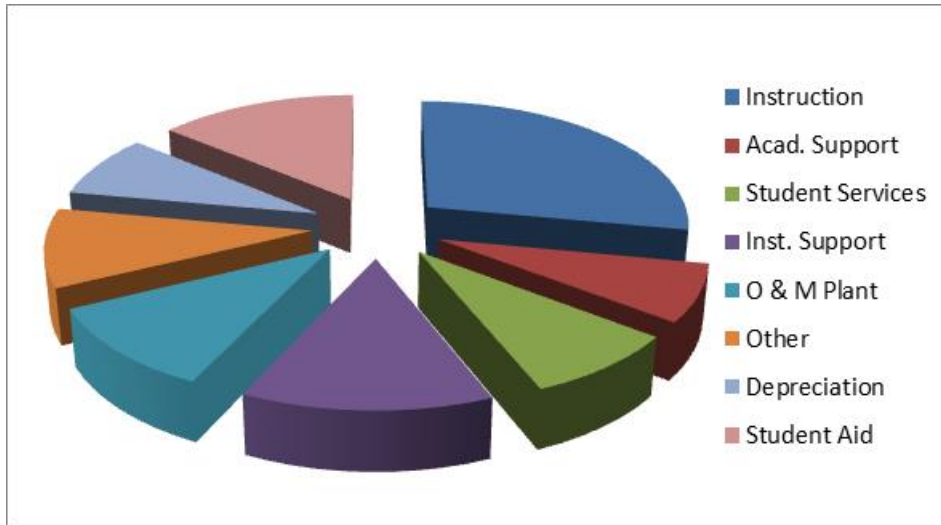


**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

REPORTING ENTITY (Continued)

The College elected to present expenses on the Statement of Revenue, Expenses and Changes in Net Position 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 2014 Net Position showed a decrease of \$638,954.

Total net position is classified by the College's ability to use these assets to meet operating needs. Net position are restricted to their use by sponsoring agencies, donors or other college 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 position may be used to meet all operating needs of the College. The chart below shows the change in net position by category.

Prior Year Comparison of Changes in Net Position	2014	2013	Change
Change in Net Position	\$ (638,954)	\$ (461,959)	\$ (176,995)
Net Investment in Capital Assets	18,866,393	19,872,153	(1,005,760)
Unrestricted	2,883,830	2,517,024	366,806

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

REPORTING ENTITY (Continued)

An analysis of financial position shows an adequate balance in unrestricted Net Position, realizing an increase of \$366,806 over the prior year.

Luna Community College

Condensed Summary of Cash Flows

For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows Used By Operating Activities	\$ (9,109,080)	\$ (9,564,876)
Cash Flows Provided From Noncapital Financing Activities	9,990,647	9,542,000
Cash Flows Provided From Investment Activities	5,182	5,029
Cash Flows Used By Capital and Related Financing Activities	(326,290)	(627,901)
Net (Decrease) Increase in Cash and Cash Equivalents	560,459	(645,748)
Cash and Cash Equivalents, Beginning of Year	2,666,620	3,312,368
Cash and Cash Equivalents, End of Year	\$ 3,227,079	\$ 2,666,620

Changes in Cash Flow are due primarily from an increase in Appropriations.

Budget and Results

The Combined Revenue variance was \$8,600,988 consisting primarily of \$3,280,799 and \$1,240,580 both associated with PELL and loans which were budgeted in anticipation of increased eligibility which did not materialize and \$3,990,329 associated mainly with the allocated capital outlay funds for which the majority of the expenditures are expected to take place in 1415. The Combined Expenditure variance of \$8,021,384 for the same factors related to revenues as all those revenues are on a reimbursement basis.

Capital Asset Activity

Overall, the College's Capital Asset balance changed by a net decrease of \$1,005,762 as result of \$270,264 in additions and \$1,332,052 in depreciation of which \$777,513 is attributable to the new building.

Long Term Debt

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

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

FACTORS IMPACTING FUTURE PERIODS & ECONOMIC OUTLOOK

In June 2014, the Department of Education received articulation approval of the Associate of Arts degree in Early Childhood Multicultural Education as required by the New Mexico Legislature. The department is also working with New Mexico Highlands University to formally articulate a 2+2 transfer program to ensure students and stakeholders that the Teacher Education program leads to state licensure and meets the standards set forth by the New Mexico Public Education Department.

Early stage conversations are planned to further strengthen the articulation of programs by where Luna Community College will offer the 100 and 200 level courses and students will then transfer to New Mexico Highlands University to complete their programs of study. Furthermore, the Nick Salazar Early Childhood Center is in the process of advancing its license which will lead to increased reimbursement from New Mexico CYFD for families who receive child care assistance. In the Vocational/Trades Department, the Collision Repair building is 1/3 complete with a major renovation project and the Welding Technologies building is slated for renovation in 2015-2016. By FY15-16, the Department will have secured over \$360,000 in equipment funds to include a new Semi driving Rig giving students an opportunity to obtain additional endorsements in the industry. Welding equipment has enhanced individual student's opportunities to obtain an American Welders Society National Certification and the department's qualifications to teach nationally accredited curriculum through NCCER. Auto Collision and Automotive Technologies have begun the process for National Automotive Technologies Foundation (NATEF) Accreditation. The efforts, accomplishments and goals of Department of Education and Vocational/Trades Department are evidence of diligence, dedication and concern for the growth of the college, enhanced reputation and the future employability of our students.

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

Contact Information

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

Luna Community College
Finance and Administration
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Las Vegas, NM
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FINANCIAL SECTION

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Luna Community College	Component Unit Foundation
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,227,079	821,478
Student accounts receivable, net of allowance of \$709,679	39,722	-
Grants receivable	361,638	14,387
Inventories	236,322	-
Total current assets	3,864,761	835,865
Noncurrent Assets		
Capital assets, net	18,866,393	-
Total noncurrent assets	18,866,393	-
Total Assets	\$ 22,731,154	835,865
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 324,575	-
Accrued compensated absences	280,433	-
Unearned revenues	366,647	-
Total current liabilities	971,655	-
Noncurrent Liabilities		
Accrued compensated absences	9,276	-
Total liabilities	980,931	-
NET POSITION		
Net Investment in Capital Aseets	18,866,393	-
Restricted		
Nonexpendable		
Scholarships	-	360,000
Expendable		
Scholarships	-	417,998
Unrestricted	2,883,830	57,867
Total net position	21,750,223	835,865
Total net position and liabilities	\$ 22,731,154	835,865

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
JUNE 30, 2014**

	Luna Community College	Component Unit Foundation
Operating Revenues		
Tuition and fees	\$ 1,203,436	-
Tuition discounts and allowances	(759,590)	-
	<u>443,846</u>	-
Federal grants and contracts	3,796,491	-
State and local grants and contracts	658,331	-
Private gifts and grants	73,001	-
Sales and services of auxiliary enterprises	677,753	-
Other	214,966	22,108
Total operating revenues	<u>5,864,388</u>	<u>22,108</u>
Operating Expenses		
Instruction and general		
Instruction	4,602,369	-
Academic support	1,205,443	-
Student services	1,401,104	-
Institutional support	2,177,490	6,325
Operation and maintenance of plant	1,767,437	-
Total instruction and general	<u>11,153,843</u>	<u>6,325</u>
Public service	431,711	-
Student aid grants and stipends	3,064,439	13,172
Tuition discounts and allowances	(759,590)	-
Auxiliary enterprises	788,926	-
Agency funds	75,599	-
Athletics	392,363	-
Student activities	19,830	-
Depreciation	1,332,050	-
Total operating expenses	<u>16,499,171</u>	<u>19,497</u>
Operating (loss) gain	<u>(10,634,783)</u>	<u>2,611</u>
Nonoperating revenues		
State appropriations	8,224,600	-
Local property tax levy	1,766,047	-
Interest and investment income	5,182	17,076
Net nonoperating revenues	<u>9,995,829</u>	<u>17,076</u>
(Decrease) increase in net position	(638,954)	19,687
Net position, beginning of year	<u>22,389,177</u>	<u>816,178</u>
Net position, end of year	<u>\$ 21,750,223</u>	<u>835,865</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF CASH FLOW
JUNE 30, 2014**

	Luna Community College
Cash Flows From Operating Activities	
Tuition and fees	\$ 460,036
Grants and contracts	4,571,543
Sales and services of educational activities	677,753
Other operating receipts	214,966
Payments to employees and suppliers	(15,033,378)
Net cash used by operating activities	<u>(9,109,080)</u>
Cash Flows From Noncapital Financing Activities	
State appropriations	8,224,600
Local property tax levy	1,766,047
Net cash provided by noncapital financing activities	<u>9,990,647</u>
Cash Flows From Capital and Related Financing Activities	
Cash paid for capital assets	<u>(326,290)</u>
Cash Flows From Investing Activities	
Interest received on investments	<u>5,182</u>
Net decrease in cash and cash equivalents	560,459
Cash and cash equivalents, beginning of year	<u>2,666,620</u>
Cash and cash equivalents, end of year	<u>\$ 3,227,079</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (10,634,783)
Adjustments to reconcile operating (loss) to net cash used by operating activities	
Depreciation	1,332,050
Changes in assets and liabilities	
Receivables	84,603
Inventories	24,443
Accounts payable	101,772
Unearned revenues	(24,693)
Accrued compensated absences	7,528
Net cash used by operating activities	<u>\$ (9,109,080)</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 Las Vegas City Schools, West Las Vegas, Maxwell, Mora, Santa Rosa, Springer and Wagon Mound.

The 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-mil ad valorem tax to support the College.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Higher Education Department. 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 position, revenues, expenses, changes in net position, 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.

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.

Reporting Entity. The Governmental Accounting Standards Board has issued statement No. 39 and No. 61. These statements 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.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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.

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.

Unearned Revenue. Unearned 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

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net investment in capital assets. This represents the College's total investment in capital assets, net of 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. The College has no debt.

Restricted Net Position - Nonexpendable. Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

Unrestricted Net Position. Unrestricted net position 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.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Classification of Revenues. The College has classified its revenues 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.

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 \$92,122 for its Nursing program of which \$90,588 was spent during the year and \$14,008 is encumbered for fiscal year 2015. The special appropriation expired on June 30, 2014.

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, 2014, none of the College's bank balance of \$3,227,079 was subject to custodial credit risk because it was neither uninsured nor uncollateralized.

The sources of the component unit cash do not meet the definition of public monies. Therefore, the component units are not required to follow State Statutes and no collateralization is required.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3. CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended June 30, 2014:

	Balance June 30, 2013	Additions/ Reclassifications	Transfers	Retirement	Balance June 30, 2014
Capital assets not being depreciated					
Land	\$ 2,322,078	\$ -	\$ -	\$ -	\$ 2,322,078
Construction in progress	169,488	56,026	-	-	225,514
	<u>\$ 2,491,566</u>	<u>\$ 56,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,547,592</u>
Other capital assets					
Buildings	30,528,998	-	-	-	30,528,998
Building improvements	4,935,309	-	-	-	4,935,309
Infrastructure	737,625	-	-	-	737,625
Automobiles	720,983	-	-	8,081	712,902
Equipment and furniture	4,360,816	270,264	-	162,164	4,468,916
	<u>\$ 41,283,731</u>	<u>\$ 270,264</u>	<u>\$ -</u>	<u>\$ 170,245</u>	<u>\$ 41,383,750</u>
Less accumulated depreciation for					
Buildings	16,627,061	777,513	-	-	17,404,574
Building improvements	2,868,247	237,838	-	-	3,106,085
Automobiles	438,231	70,373	-	8,081	500,523
Equipment and furniture	3,969,605	246,326	-	162,164	4,053,767
	<u>\$ 23,903,144</u>	<u>1,332,050</u>	<u>-</u>	<u>170,245</u>	<u>25,064,949</u>
Other capital assets, net	<u>\$ 17,380,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,318,801</u>
Capital assets summary					
Capital assets not being depreciated	2,491,566	56,026	-	-	2,547,592
Other capital assets at cost	41,283,731	270,264	-	170,245	41,383,750
	<u>\$ 43,775,297</u>	<u>\$ 326,290</u>	<u>\$ -</u>	<u>\$ 170,245</u>	<u>\$ 43,931,342</u>
Less accumulated depreciation	<u>23,903,144</u>	<u>1,332,050</u>	<u>-</u>	<u>170,245</u>	<u>25,064,949</u>
Capital assets, net	<u>\$ 19,872,153</u>	<u>\$ (1,005,760)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,866,393</u>

Depreciation expense for the year ended June 30, 2014 was \$1,332,050.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – LONG-TERM LIABILITIES

Long-term liability activity for the College for the year ended June 30, 2013, is as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Accrued compensated absences	\$ 291,515	\$ 218,697	\$ 220,503	\$ 289,709	\$ 280,433

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, 2010, House Bill 854 decreased plan members' contributions to 9.40%. The College is required to contribute 10.90% 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, 2014, the contribution required by employees earning more than \$20,000 will increase to 10.70% and the College contribution will increase to 13.90%. The employee contribution rate will remain unchanged for employees earning \$20,000 or less but the employer contribution will increase to 13.90%. 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, 2014, 2013, and 2012 were \$1,362,257, \$1,183,998, and \$1,205,018 respectively, which equal the amount of the required contributions for each fiscal year.

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).

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – POST EMPLOYMENT BENEFITS (CONTINUED)

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;
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 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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4, or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – POST EMPLOYMENT BENEFITS (CONTINUED)

In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The College's contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$177,514, \$175,310 and \$163,643, 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.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

There were no commitments or obligations outstanding at June 30, 2014.

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 mills (\$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 within the first sixty days of the fiscal year. However, the College estimates the net receivable amount to be immaterial to the financial statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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

	Revenues	Expenses
Budget basis (revenues) / expenditures	\$ (16,547,557)	16,177,409
Agency funds	(72,250)	75,599
Capital expenditures	-	(326,299)
Depreciation	-	1,332,052
Scholarship allowance	759,590	(759,590)
	<u>759,590</u>	<u>(759,590)</u>
GAAP basis (revenue) / expense	<u>\$ (15,860,217)</u>	<u>16,499,171</u>

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 Uncollateralized	Total Depository Balances
Demand Deposits				
Community First Bank	\$ 160,620	\$ -	\$ -	\$ 160,620
Certificates of Deposit				
Community First Bank	229,093	-	-	229,093
Southwest Capital Bank	250,000	-	181,765	431,765
Total	<u>\$ 639,713</u>	<u>\$ -</u>	<u>\$ 181,765</u>	<u>\$ 821,478</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 is matched by the Foundation during fiscal year. At June 30, 2014 the Foundation has a balance of \$360,000 in the Title V endowment.

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.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 13, STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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.

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.

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

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.

NOTE 14. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement, which is effective for financial statements for periods beginning after December 15, 2012, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The College adopted GASB Statement No. 65 during fiscal year 2014. The College currently has no deferred outflows or inflows.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 14. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62*. This statement, which is effective for financial statements for periods beginning after December 15, 2012, amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The adoption of GASB Statement No. 66 had no effect on the College's financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This statement, which is effective for financial statements for periods beginning after June 15, 2013, replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The College is a participant in the State of New Mexico's public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) as the plan's administrator, implemented this new pronouncement during fiscal year 2014.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement, which is effective for financial statements for periods beginning after June 15, 2013, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. The adoption of this pronouncement had no effect on the College's financial statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 15. NEW ACCOUNTING PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2014.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Upon adoption of this statement for the year ended June 30, 2015, the Statement of Net Position will include a material liability for pension participation in fiscal year 2015.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

The College will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The College believes that GASB 69 and 71 pronouncements will not have a significant financial impact to the College or in issuing its financial statements.

SUPPLEMENTARY 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, 2014**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 997,343	2,517,023	2,517,023	-
Revenues:				
State general fund appropriations	8,172,300	8,224,560	8,224,600	40
Federal revenue sources	6,370,984	7,077,290	3,796,491	(3,280,799)
Tuition and fees	1,278,357	1,292,757	1,203,436	(89,321)
Endowment, land and permanent fund	-	-	-	-
Private gifts, grants and contracts	1,797,452	1,970,962	730,382	(1,240,580)
Other	6,626,506	6,582,977	2,592,648	(3,990,329)
Total revenues	24,245,599	25,148,546	16,547,558	(8,600,989)
Expenditures:				
Instruction	4,631,839	5,620,499	4,602,369	(1,018,130)
Academic support	1,259,342	1,591,692	1,205,443	(386,249)
Student services	1,911,358	1,546,172	1,401,104	(145,068)
Institutional support	2,300,095	2,395,842	2,177,490	(218,352)
Operation and maintenance of plant	1,986,280	2,054,328	2,037,701	(16,627)
Subtotal Instruction and general	12,088,914	13,208,533	11,424,107	(1,784,426)
Student social and cultural	20,645	20,645	19,830	(815)
Public service	411,482	595,274	431,718	(163,556)
Student aid	6,633,025	6,647,913	3,064,439	(3,583,474)
Auxiliary enterprises	820,519	846,356	788,926	(57,430)
Intercollegiate athletics	442,125	443,358	392,363	(50,995)
Capital outlay	4,160,000	4,160,000	56,026	(4,103,974)
Renewal and replacements	-	62,770	-	(62,770)
Total expenditures	24,576,710	25,984,849	16,177,409	(9,807,440)
Net Transfers to (from)	-	-	-	-
Change in net assets (budgetary basis)	(331,111)	(836,303)	370,149	1,206,451
Ending fund balance	\$ 666,232	\$ 1,680,720	\$ 2,887,172	\$ 1,206,451

**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, 2014**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 743,434	2,134,163	2,134,163	-
Revenues:				
Tuition and fees	1,257,712	1,272,112	1,177,004	(95,108)
Government appropriations - federal				-
Government appropriations - state	7,957,100	8,009,360	8,009,400	40
Government appropriations - local	1,562,706	1,562,706	1,766,047	203,341
Grants and contracts - federal			4,790	4,790
Grants and contracts - state		92,122	92,122	-
Grants and contracts - local				-
Gifts, grants and contracts - private			1,401	1,401
Endowments, land and permanent fund				-
Sales and service			3,603	3,603
Other sources	11,800	11,800	10,179	(1,621)
Total revenues	<u>10,789,318</u>	<u>10,948,100</u>	<u>11,064,546</u>	<u>116,446</u>
Expenditures:				
Instruction	4,017,410	4,637,825	4,071,889	(565,936)
Academic support	609,353	670,646	603,273	(67,373)
Student services	1,911,358	1,527,108	1,385,794	(141,314)
Institutional support	2,300,095	2,395,842	2,177,491	(218,351)
Operation and maintenance of plant	1,986,280	2,054,328	2,031,318	(23,010)
Total expenditures	<u>10,824,496</u>	<u>11,285,749</u>	<u>10,269,765</u>	<u>(1,015,984)</u>
Net Transfers to (from)	<u>(372,050)</u>	<u>(424,229)</u>	<u>(312,951)</u>	<u>111,278</u>
Change in net assets - budgetary basis	<u>(407,228)</u>	<u>(761,878)</u>	<u>481,830</u>	<u>1,243,708</u>
Ending fund balance	<u>\$ 336,206</u>	<u>\$ 1,372,285</u>	<u>\$ 2,615,993</u>	<u>\$ 1,243,708</u>

**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, 2014**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Tuition and fees	\$ -	-		-
Government appropriations - federal	-	-		-
Government appropriations - state				-
Government appropriations - local				-
Grants and contracts - federal	1,167,823	1,781,275	992,231	(789,044)
Grants and contracts - state	96,595	134,795	129,182	(5,613)
Grants and contracts - local				-
Gifts, grants and contracts - private				-
Endowments, land and permanent fund				-
Sales and service				-
Other sources		6,714	6,383	(331)
	<u>1,264,418</u>	<u>1,922,784</u>	<u>1,127,796</u>	<u>(794,988)</u>
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	<u>1,264,418</u>	<u>1,922,784</u>	<u>1,127,796</u>	<u>(794,988)</u>
Expenditures:				
Instruction	614,429	982,674		(982,674)
Academic support	649,989	921,046		(921,046)
Student services		19,064		(19,064)
Institutional support				-
Operation and maintenance of plant				-
Student aid	-	-	-	-
Total expenditures	<u>1,264,418</u>	<u>1,922,784</u>	<u>-</u>	<u>(1,922,784)</u>
Net Transfers to (from)	-	-	-	-
Change in net assets - budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,127,796</u>	<u>\$ 1,127,796</u>

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF CASH AND CASH EQUIVALENTS
YEAR ENDED JUNE 30, 2014

College:

Account Name	Type of Account	Balance Per Bank Statement	Reconciled Balance Per Books
Wells Fargo			
Santa Rosa Account	Checking	\$ 11,157	\$ 10,717
Springer Account	Checking	9,003	9,002
	Total	<u>20,160</u>	<u>19,719</u>
Southwest Capital Bank			
General Disbursement	Checking	3,210,532	2,997,590
Payroll	Checking	314,395	157,933
Student Activity	Checking	50,118	51,837
	Total	<u>3,575,045</u>	<u>3,207,360</u>
	Total	<u>\$ 3,595,205</u>	<u>\$ 3,227,079</u>

Foundation

Community 1st Bank			
Checking	Checking	\$ 160,620	\$ 160,620
Short-Term Investments	Certificate of Deposit	229,093	229,093
	Total	<u>389,713</u>	<u>389,713</u>
Southwest Capital Bank			
Short-Term Investments	Certificate of Deposit	431,765	431,765
	Total	<u>\$ 821,478</u>	<u>\$ 821,478</u>

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2014

	Wells Fargo	Southwest Capital Bank
Total amount on deposit at bank in checking accounts	\$ 20,160	3,575,045
Total amount on deposit at bank in certificates of deposit	-	-
FDIC Insurance	<u>(20,160)</u>	<u>(250,000)</u>
Total uninsured public funds	<u>\$ -</u>	<u>3,325,045</u>
50% collateral requirement (Section 6-10-17 NMSA 1978)	<u>\$ -</u>	<u>1,662,523</u>

Pledged Collateral:

Security	CUSIP No.	Location	Maturity	
FHLB	3133824C4	Southwest Capital Bank	August 13, 2019	\$ (500,000)
FNMA	3138EKPX7	Southwest Capital Bank	October 1, 2023	(750,000)
FHLMC	3128MDATO	Southwest Capital Bank	October 1, 2026	(500,000)
GNMA	36225FGQ6	Southwest Capital Bank	August 20, 2041	<u>(1,000,000)</u>
Amount over collateralized				<u>\$ (1,087,478)</u>

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING
FOR THE YEAR ENDED JUNE 30, 2014**

Administering Agency <u>Responsible</u> Party	Description	Begin Date	End Date	Total Amount	LCC Amount	Amount Expended as of 6.30.13	Audit Party	Fiscal Agent	Reporting Agency
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.10	8.30.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	1.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	1.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	1.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	1.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	4.25.11	6.1.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Dual Credit	5.4.11	Termination	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.1.11	7.28.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	6.20.11	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.11	8.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.11	8.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	9.1.11	8.31.16	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	9.1.11	8.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Education and Career Training	9.23.11	9.13.12	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Dual Credit	9.27.11	Termination	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Cooperative Agreement	1.1.12	9.30.16	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	1.27.12	8.30.14	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	2.1.12	1.31.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	3.1.12	7.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	3.8.12	1.1.14	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	3.29.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Facility Use	4.1.12	3.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Facility Use	4.12.12	5.31.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Facility Use	4.24.12	4.24.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	4.27.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	5.1.12	7.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	5.1.12	7.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	5.1.12	7.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Facility Use	6.1.12	3.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING
FOR THE YEAR ENDED JUNE 30, 2014**

Administering Agency <u>Responsible</u> <u>Party</u>	<u>Description</u>	<u>Begin Date</u>	<u>End Date</u>	<u>Total</u> <u>Amount</u>	LCC <u>Amount</u>	Amount Expended <u>as of</u> <u>6.30.13</u>	Audit <u>Party</u>	Fiscal <u>Agent</u>	Reporting <u>Agency</u>
LCC	Clinical Instruction	7.1.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Dual Credit	7.1.12	Termination	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	7.1.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	CDSMP Project Management	7.1.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	CDSMP Project Management	7.1.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	7.1.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	7.1.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.1.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	8.19.12	8.30.15	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	CDSMP Project Management	9.1.12	8.31.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Articulation Agreement	9.1.12	8.31.17	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	9.17.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	11.14.12	6.30.13	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	12.11.12	7.31.14	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	12.11.12	7.31.14	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	12.11.12	7.31.14	\$ -	\$ -	\$ -	LCC	LCC	Both
LCC	Clinical Instruction	12.15.12	7.31.14	\$ -	\$ -	\$ -	LCC	LCC	Both

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Award/Subaward Number	Federal Expenditures
United States Treasury			
AmeriCorps State and National	94.006	N/A	\$ 2,349
United States Small Business Administration			
Passed through the New Mexico Small Business Development Center Small Business Development Centers	59.037	12-603001-Z-0032-24	21,689
United States Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007	(12-13)	511
Federal Supplemental Educational Opportunity Grants	84.007	(13-14)	49,970
Federal Work-Study Program	84.033	(12-13)	2,130
Federal Work-Study Program	84.033	(13-14)	32,198
Federal Pell Grant Program	84.063	(12-13)	8,069
Federal Pell Grant Program	84.063	(13-14)	2,104,186
Direct Loans Un-Subsidized	84.268	(12-13)	973
Direct Loans Subsidized	84.268	(12-13)	10,821
Direct Loans Un-Subsidized	84.268	(13-14)	119,067
Direct Loans Subsidized	84.268	(13-14)	387,774
Total Student Financial Aid Cluster			2,715,699
Higher Education Institutional Aid - Title V	84.031S	P031S120116	234,413
Higher Education Institutional Aid - Title V	84.031S	P031S120116-13	346,080
			580,493
Passed through New Mexico Highlands University			
Higher Education Institutional Aid - Title V	84.031C	NMHU PO#P0131224	12,620
Higher Education Institutional Aid - Title V	84.031C	NMHU PO#P0140902	46,963
Total passed through New Mexico Highlands University			59,583
Total Higher Education Institutional Aid - Title V			640,076
Passed through the State of New Mexico Higher Education Department			
Doctorial Dissertation Research Abroad	84.022	689888 (13-14)	36,341
Total Department of Education			3,392,116
United States Department of Health and Human Services			
Passed through the University of New Mexico			
AHEC-POSME	93.107	Subaward#3RF40	38,025
United States Department of Labor			
Youth Build	17.274	YB-23491-12-60-A-35	54,112
Youth Build	17.274	YB-23491-12-60-A-35	226,719
			280,831
Total United States Department of Labor			280,831

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

National Science Foundation

Passed through New Mexico Tech STEM Grant Transfer (STeP)	47.076	DUE-1161334 NMIMT#STEM10	<u>7,763</u>
Passed through the University of New Mexico Office of Cyber Infrastructure	47.080	063013-87P0	<u>27,220</u>
Total National Science Foundation			<u>34,983</u>
Total Federal Expenditures			<u><u>\$ 3,769,993</u></u>

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014**

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – STUDENT FINANCIAL ASSISTANCE

The College administers the Federal Direct Loan Program (CDFA 84.268). During the fiscal year ended June 30, 2014, the College processed \$520,101 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 4 – 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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component unit of Luna Community College (the "College"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and the budgetary comparisons presented as supplemental information, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

College's Responses to Findings

The College's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Albuquerque, New Mexico
November 14, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Luna Community College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2014. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

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

The logo for Axiom, featuring the word "Axiom" in a stylized, blue, cursive font.

Albuquerque, New Mexico
November 14, 2014

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2014**

<u>Description</u>	<u>Status</u>
2009-03 Foundation Accounting Records	Resolved
2011-02 Fixed Asset Inventory	Resolved

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency identified that are not considered to be material weakness(es)? _____ Yes x None Reported

Non-compliance material to financial statements noted? _____ Yes x No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency identified that are not considered to be material weakness(es) _____ Yes x None reported

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

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

Identification of Major Program

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
84.031	Higher Education Institutional Aid - Title V

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

Auditee qualified as low-risk auditee? x Yes _____ No

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

B. FINANCIAL STATEMENT FINDINGS

2014-001 Segregation of Duties in Payroll Disbursements (Significant Deficiency)

CONDITION: Through current year evaluation of the payroll transaction cycle, it was noted that the individual responsible for processing of payroll has access to changing rates of pay. Rates of pay should be changed by the Human Resources Department which creates new employees. Additionally, we noted that the same individual has access to check stock with signature stamps and direct deposit authorization. We also noted that this individual is the only person trained in the payroll function.

CRITERIA: 6-5-2C NMSA 1978 states that an entity shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. Furthermore, adequate segregation of duties shall be considered for all control implementations in that no single individual has authority to initiate or conduct a transaction, process and record transactions, and maintain custody of an asset.

EFFECT: Access to processing payroll transactions, signed check stock and direct deposit authorization, and rate of employee pay is considered a segregation of duties violation (authorization, recordkeeping, and custody of assets) and causes risk for entry and payment to fictitious employees.

CAUSE: There is only one person who is trained in the payroll function. All responsibility for payroll is assigned to this individual.

RECOMMENDATION: It is recommended that the access of pay rates should be limited to the HR Manager. It is also recommended that a different staff member prints checks and submits direct deposits.

MANAGEMENT RESPONSE: Based on the 2014-001 Segregation of Duties in Payroll Disbursement (Significant Deficiency), Luna Community College (LCC) Human Resources Department will be implementing the following changes.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Finding # 1 Individual responsible for processing of payroll has access to changing rates of pay.

Solution # 1 The Human Resources Technician will be responsible for entering the rate of pay initial and subsequent changes and process new hire information. The Human Resources Director will serve as backup. Access to this function in the management system will be removed from the Payroll Manager's menu.

Finding # 2 Check stock was located in Payroll Manager's office.

Solution # 2 Check stock is now located in Director of Human Resources' office. These checks are in a locked fire proof filing cabinet and a log of the check numbers is maintained by the Payroll Manager and the Human Resources Director. The Human Resources Technician will assume this role upon the filling of the position.

Finding # 3 The Payroll Manager is the only individual trained in payroll.

Solution # 3 Previously, HR Office Specialist, had been trained in the payroll process. On Tuesday, November 11, 2014, the Payroll Manager will continue cross-training the HR Specialist.

Furthermore, after the Payroll Manager has provided the deposit requirement to the bank, the bank personnel will await confirmation by the Human Resources Director. If the Human Resources Director is unavailable, the Vice President of Finance will provide confirmation. This has been approved verbally and will be supported with a written e-mail to the bank personnel. This will be operational on the November 15, 2014 payroll.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2014**

The contents of this report were discussed in the exit conference held on October 31, 2014 with the following in attendance.

Representing Luna Community College:

Pete Campos	President
Donna Flores-Medina	Chief Financial Officer
Francina Martinez	Comptroller
Evelyn Montoya	Executive Office Manager, Finance and Administration
Carolyn Chavez	Human Resources Director
Leticia Archuleta	Human Resources Payroll Manager
Michael Montoya	Director Student Financial Aid
Lorraine Martinez	Director Title V
Abran Romero	Institutional Research & Development
Ron Gonzales	Director Physical Plant
Frank Tenorio	Board of Trustees
Abelino Montoya	Board of Trustees

Representing Luna Community College Foundation:

Sara Flores	Executive Director Foundation
Inca Crespín	Foundation Treasurer

Representing Axiom CPAs:

Chris Garner	Partner
Bryan Runyan	Supervisor