

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

VIA EMAIL AND U.S. MAIL

January 25, 2017

Leroy "Huero" Sanchez, President
Luna Community College
366 Luna Drive Las Vegas, NM 87701

Dear President Sanchez:

The Office of the State Auditor (OSA) has released the Fiscal Year 2016 financial and compliance audit for Luna Community College (LCC).

The audit report contains various findings noting a lack of compliance with legal requirements and policies and procedures, including nepotism restrictions, presidential search requirements and inventory counts. In addition, the special audit initiated by the New Mexico Higher Education Department, dated October 26, 2016, also highlighted significant shortcomings with respect to hires, promotions and pay raises of direct family members and relatives. The problems identified in the reports expose LCC to potential legal liability and create an environment susceptible to fraud, waste and abuse, which may divert LCC's limited resources away from the students.

It is critical that LCC leadership maintain appropriate internal controls designed to achieve compliance with applicable laws and regulations. A key component of an effective internal control framework is "control environment," which includes a commitment to integrity and ethical values, a management operating style reflecting an appropriate "tone at the top," and adherence to sound human resource policies and procedures. In order to safeguard public funds and ensure compliance with applicable laws, regulations and policies, LCC needs to take prompt steps to address the identified shortfalls and implement controls moving forward.

In response to the reports' findings, we appreciate management's acknowledgement of the issues raised and LCC's cooperation during the audit process. Our office stands ready to assist in any way possible as LCC works to improve its processes.

Sincerely,

A handwritten signature in cursive script that reads "Timothy M. Keller".

Timothy M. Keller
State Auditor

cc: Daniel Romero, Chairman
Kenneth Medina, Vice Chairman
Ernie Chavez, Secretary
Michael Adams, Board Member
David Gutierrez, Board Member
Abelino Montoya, Jr., Board Member
Severiano Sisneros, Board Member

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE

Financial Statements

June 30, 2016



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE**

Financial Statements

June 30, 2016

INTRODUCTORY SECTION

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
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JUNE 30, 2016**

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LUNA COMMUNITY COLLEGE
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**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
OFFICIAL ROSTER
JUNE 30, 2016**

BOARD OF TRUSTEES

Name	Title
Daniel J. Romero	Chairman
Kenneth Medina	Vice Chairman
Ernie Chavez	Secretary
Michael Adams	Member
David Gutierrez	Member
Abelino Montoya Jr.	Member
Severiano Sisneros	Member

ADMINISTRATIVE OFFICIALS

Name	Title
Leroy Sanchez	President
Donna Flores - Medina	Vice President for Finance & Administration

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Luna Community College
Las Vegas, New Mexico
And Mr. Tim Keller, New Mexico State Auditor

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, 2016, 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 budget comparison presented as supplementary information, as defined by Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2016, 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 *Governmental 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 aggregate discretely presented component unit of the College, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of the College's Proportionate Share of Net Pension Liability, and Schedule of the College's Contributions on pages 7-13 and 34-36 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements and budget comparisons. The accompanying *Schedule of Expenditures of Federal Awards as required by Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations*, and other schedules as required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and other schedules required by Section 2.2.2.NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule of Expenditures of Federal Awards and other schedules required by Section 2.2.2.NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Vendor Information required by 2.2.2.10(A)(2)(g) NMAC has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2016 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 result 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.

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

Albuquerque, New Mexico
November 15, 2016

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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, 2016. 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, 2016**

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	2016	2015
Assets		
Current assets	\$ 5,508,789	\$ 5,021,382
Non-current assets	1,344,733	866,076
Capital assets, net of accumulated depreciation	20,977,055	18,728,689
Total Assets	\$ 27,830,577	\$ 24,616,147
Liabilities		
Current liabilities	534,860	1,239,442
Noncurrent liabilities	14,388,385	13,549,433
Total Liabilities	\$ 14,923,245	\$ 14,788,875
Net Position		
Net investment in capital assets	20,977,055	18,728,689
GASB 68 Pension Fund	-	(12,670,754)
Unrestricted	(8,069,723)	3,769,337
Total Net Position	\$ 12,907,332	\$ 9,827,272

The College's current assets consist primarily of cash and other assets deemed to be consumed or convertible to cash within one year in the amount of \$4,118,139.

Current liabilities are amounts due within one year of \$534,860.

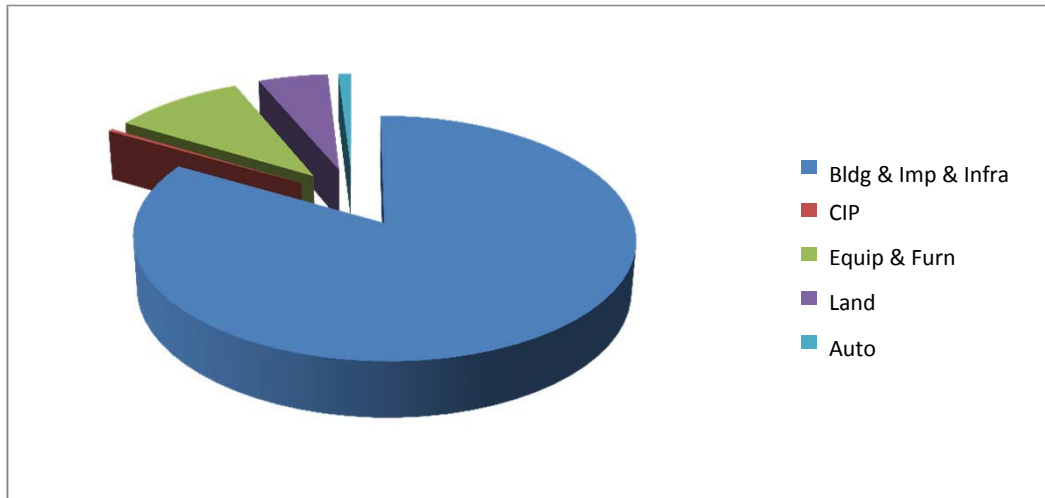
At June 30, 2016, the College's current ratio was nearly 10:1 comparing the amount of current assets, \$5,508,789 available to cover current liabilities, \$534,860. The largest category of non-current assets is capital assets, net of accumulated depreciation of \$20,977,055.

The Change in Net Position of 31% was due to lower than expected spending and changes in capital assets.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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, 2016 and 2015**

	2016	2015
Operating Revenues By Major Source		
Tuition	\$ 292,378	\$ 142,518
Contracts and grants	5,762,480	5,039,974
Sales and services of auxiliary enterprises	670,572	587,257
Other	20,115	162,299
Total	\$ 6,745,545	\$ 5,932,048
Operating Expenses By Major Function		
Instruction	4,371,251	4,350,985
Academic support	1,103,434	1,309,433
Student services	1,569,584	1,382,002
Institutional support	2,163,739	2,403,433
Operating and maintenance support	1,697,472	1,845,754
Public service	359,181	401,715
Student aid	1,018,459	1,759,501
Auxiliaries	646,687	589,179
Agency/Athletics/Student Activities	550,221	446,836
Depreciation	1,038,146	1,457,163
Total	\$ 14,518,174	\$ 15,946,001

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

REPORTING ENTITY (Continued)

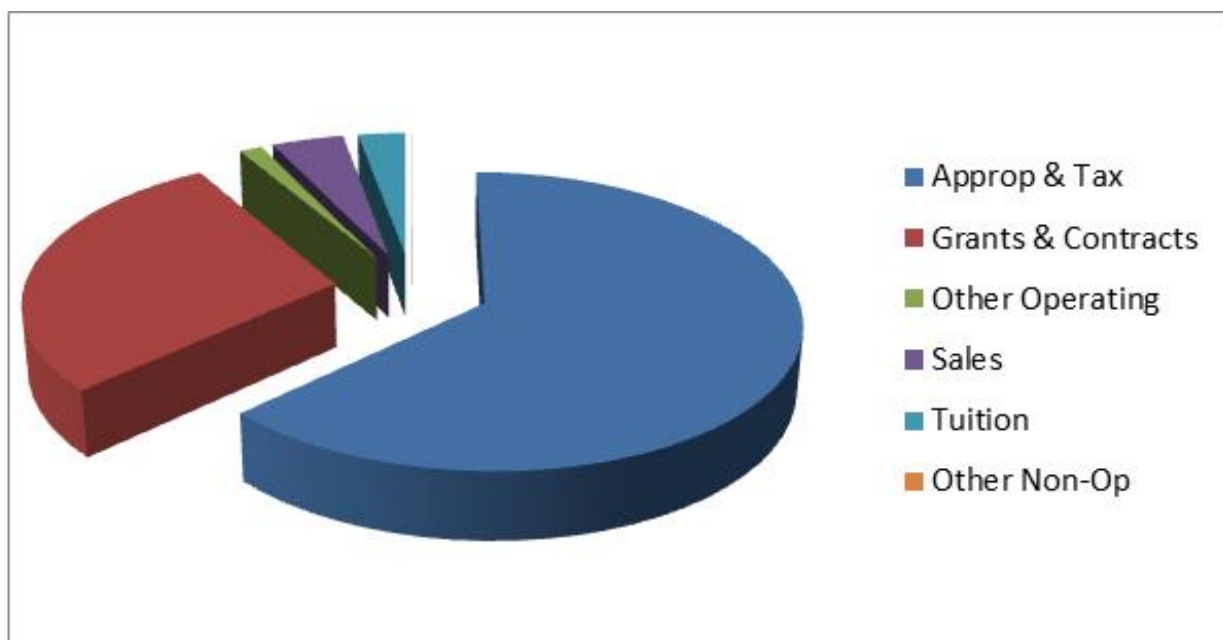
Nonoperating Revenue (Expense)	<u>2016</u>	<u>2015</u>
Appropriations	8,728,204	8,730,719
Other	2,124,492	2,041,037
Net nonoperating revenues	\$ 10,852,696	\$ 10,771,756
(Decrease) increase in net position	3,080,067	747,796
Prior Period Adjustment GASB 68	-	(12,670,754)
Net Position, Beginning of Year	<u>9,827,265</u>	<u>21,750,223</u>
Net Position, End of Year	\$ 12,907,332	\$ 9,827,265

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.

The 31% variance is due to increase in grants and contract revenue and lower spending.

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

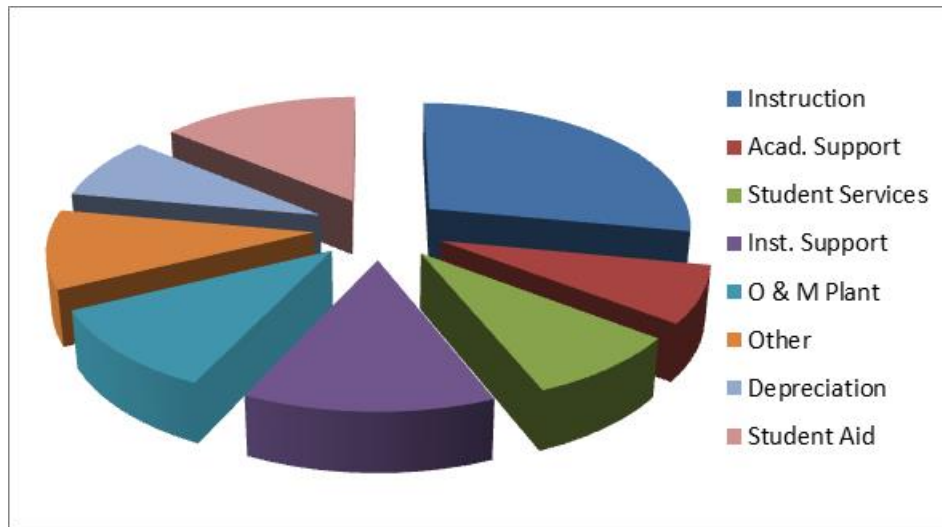


**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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 2016 Net Position showed an increase of \$3,080,067.

Total net position is classified by the College's ability to use these assets to meet operating needs. Net position is restricted to their use by sponsoring agencies, donors or other non-LCC entities are classified as "non- expendable" and "expendable". The restricted net position is 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	2016	2015	Change
Change in Net Position	\$ 3,080,067	\$ 747,803	\$ 2,332,264
Prior Period Adjustment for GASB 68	-	(12,670,754)	(12,670,754)
Net Investment in Capital Assets	20,977,055	18,728,689	2,248,366
Unrestricted	(8,069,723)	3,769,337	(4,300,386)

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

REPORTING ENTITY (Continued)

An analysis of financial position shows a balance in unrestricted Net Position, realizing a decrease of \$4,300,386 from the prior year.

**Luna Community College
Condensed Summary of Cash Flows
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows Used By Operating Activities	\$ (7,102,254)	\$ (9,025,167)
Cash Flows Provided From Noncapital Financing Activities	10,847,004	10,766,342
Cash Flows Provided From Investment Activities	5,692	5,414
Cash Flows Used By Capital and Related Financing Activities	<u>(3,286,512)</u>	<u>(1,319,459)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	463,930	427,130
Cash and Cash Equivalents, Beginning of Year	<u>3,654,209</u>	<u>3,227,079</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,118,139</u>	<u>\$ 3,654,209</u>

Changes in Cash Flow were 13% due to increase in grants and contract revenue and lower spending.

Budget and Results

There were no instances of exceeding the final budget. The Combined Revenue variance was \$7,334,846 consisting primarily of \$4,798,578 for Financial Aid, which is budgeted high to avoid a budget finding and \$2,332,672 associated mainly with the allocated capital outlay funds for which the remainder of the expenditures are expected to take place in 1617. The Combined Expenditure variance of \$7,261,486 is directly related to the same factors as the revenues variance as described.

Capital Asset Activity

Overall, the College's Capital Asset balance changed by a net increase of \$2,248,364 mainly as a result of significant additions to construction in progress.

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, 2016**

FACTORS IMPACTING FUTURE PERIODS & ECONOMIC OUTLOOK

Under the leadership of the new Vice President of Academics, the following is part of the new vision and is being implemented to the end of increasing student retention and completion and higher enrollment in the future.

Offering *Trust and Crucial Conversations* workshops to faculty and staff to improve communication skills.
Offering FERPA training online for all faculty and staff.

Modifying our tutoring program by seeking input from students and providing data to continually improve our tutoring service.

Implementing a Mentoring program for first-time full-time students.

Provide quality education for blended and fully online courses for Vocations and Business College by 2018.
Creating an Advisement Committee per our Persistence Plan

Creating an Institutional Research Team to collect data and meet yearly targets and for providing easily accessible and consistent data for grant applications as well various internal and external reporting.

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

FINANCIAL SECTION

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF NET POSITION
JUNE 30, 2016

	Luna Community College	Component Unit Foundation
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 4,118,139	159,421
Student accounts receivable, net of allowance of \$719,408	50,106	-
Grants receivable	825,203	-
Other receivable	291,981	9,214
Inventories	223,360	-
Total current assets	5,508,789	168,635
Noncurrent Assets		
Investments	-	695,075
Capital assets, net	20,977,055	-
Total noncurrent assets	20,977,055	695,075
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	1,344,733	-
Total deferred outflows of resources	1,344,733	-
Total assets and deferred outflows of resources	\$ 27,830,577	863,710
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 131,662	481
Current portion of compensated absences	32,929	-
Unearned revenues	370,269	-
Total current liabilities	534,860	481
Noncurrent Liabilities		
Net pension liability	13,813,418	-
Compensated absences	186,600	-
Total noncurrent liabilities	14,000,018	-
DEFERRED INFLOWS OF RESOURCES		
Pension related	388,367	-
Total deferred inflows of resources	388,367	-
NET POSITION		
Net Investment in Capital Aseets	20,977,055	-
Restricted		
Nonexpendable		
Scholarships	-	370,000
Expendable		
Scholarships	-	420,710
Unrestricted	(8,069,723)	72,519
Total net position	12,907,332	863,229
Total liabilities, deferred inflows of resources and net position	\$ 27,830,577	863,710

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
JUNE 30, 2016**

	Luna Community College	Component Unit Foundation
Operating Revenues		
Tuition and fees	\$ 1,454,514	-
Tuition discounts and allowances	(1,162,136)	-
	292,378	-
Federal grants and contracts	2,323,339	-
State and local grants and contracts	3,351,381	-
Private gifts and grants	87,760	6,097
Sales and services of auxiliary enterprises	670,572	-
Other	20,115	35,195
Total operating revenues	6,745,545	41,292
Operating Expenses		
Instruction and general		
Instruction	4,371,251	-
Academic support	1,103,434	-
Student services	1,569,584	-
Institutional support	2,163,739	26,968
Operation and maintenance of plant	1,697,472	-
Total instruction and general	10,905,480	26,968
Public service	359,181	-
Student aid grants and stipends	2,180,595	14,698
Tuition discounts and allowances	(1,162,136)	-
Auxiliary enterprises	646,687	-
Agency funds	18,909	-
Athletics	469,499	-
Student activities	61,813	-
Depreciation	1,038,146	-
Total operating expenses	14,518,174	41,666
Operating loss	(7,772,629)	(374)
Nonoperating revenues		
State appropriations	8,728,204	-
Local property tax levy	2,118,800	-
Interest and investment income	5,692	13,085
Net nonoperating revenues	10,852,696	13,085
Increase in net position	3,080,067	12,711
Net position, beginning of year	9,827,265	850,518
Net position, end of year	\$ 12,907,332	863,229

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATEMENT OF CASH FLOW
JUNE 30, 2016**

	Luna Community College
Cash Flows From Operating Activities	
Tuition and fees	\$ 252,628
Grants and contracts	5,747,189
Sales and services of educational activities	670,572
Other operating receipts	20,115
Payments to employees and suppliers	<u>(13,792,758)</u>
Net cash used by operating activities	<u>(7,102,254)</u>
Cash Flows From Noncapital Financing Activities	
State appropriations	8,728,204
Local property tax levy	<u>2,118,800</u>
Net cash provided by noncapital financing activities	<u>10,847,004</u>
Cash Flows From Capital and Related Financing Activities	
Cash paid for capital assets	<u>(3,286,512)</u>
Cash Flows From Investing Activities	
Interest received on investments	<u>5,692</u>
Net increase in cash and cash equivalents	463,930
Cash and cash equivalents, beginning of year	<u>3,654,209</u>
Cash and cash equivalents, end of year	<u>\$ 4,118,139</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (7,772,629)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	1,038,146
Changes in assets and liabilities	
Receivables	(57,194)
Inventories	33,717
Deferred outflows	(484,964)
Accounts payable	(467,365)
Unearned revenues	2,153
Deferred inflows	(907,424)
Net pension liability	1,566,076
Accrued compensated absences	<u>(52,770)</u>
Net cash used by operating activities	<u>\$ (7,102,254)</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016**

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, 2016**

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 value

**STATE OF NEW MEXICO
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JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is 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.

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.

**STATE OF NEW MEXICO
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position have been determined on the same bases as they are reported by ERB, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 \$291,000 for its Nursing program of which \$44,091 was spent against current fund during the year and \$146,915 was spent from prior encumbrances. \$246,909 is encumbered for fiscal year 2017.

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, 2016, none of the College's bank balance of \$4,481,426 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

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NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

component units are not required to follow State Statutes and no collateralization is required.

NOTE 3 – CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Transfers	Deletions/ Reclassification	Balance June 30, 2016
Capital assets not being depreciated					
Land	\$ 2,322,078	-	-	-	2,322,078
Construction in progress	461,738	3,051,504	(2,064,634)	-	1,448,608
	<u>\$ 2,783,816</u>	<u>3,051,504</u>	<u>(2,064,634)</u>	<u>-</u>	<u>3,770,686</u>
Other capital assets					
Buildings	\$ 30,528,998	-	-	-	30,528,998
Building improvements	6,557,559	-	2,064,634	-	8,622,193
Automobiles	829,897	17,613	-	-	847,510
Equipment and furniture	4,550,531	217,395	-	-	4,767,926
	<u>\$ 42,466,985</u>	<u>235,008</u>	<u>2,064,634</u>	<u>-</u>	<u>44,766,627</u>
Less accumulated depreciation					
Buildings	\$ 18,182,087	679,008	-	164,048	19,025,143
Building Improvements	3,343,923	164,431	-	46,871	3,555,225
Automobiles	570,896	69,733	-	23,436	664,065
Equipment and furniture	4,425,206	124,974	-	(234,355)	4,315,825
	<u>26,522,112</u>	<u>1,038,146</u>	<u>-</u>	<u>-</u>	<u>27,560,258</u>
Other capital assets, net	<u>\$ 15,944,873</u>	<u>(803,138)</u>	<u>2,064,634</u>	<u>-</u>	<u>17,206,369</u>
Capital assets summary					
Capital assets not being depreciated	\$ 2,783,816	3,051,504	(2,064,634)	-	3,770,686
Other capital assets at cost	42,466,985	235,008	2,064,634	-	44,766,627
	<u>45,250,801</u>	<u>3,286,512</u>	<u>-</u>	<u>-</u>	<u>48,537,313</u>
Less accumulated depreciation	<u>(26,522,112)</u>	<u>(1,038,146)</u>	<u>-</u>	<u>-</u>	<u>(27,560,258)</u>
Capital assets, net	<u>\$ 18,728,689</u>	<u>2,248,366</u>	<u>-</u>	<u>-</u>	<u>20,977,055</u>

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
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JUNE 30, 2016**

NOTE 3 – CAPITAL ASSETS, NET (CONTINUED)

Depreciation expense for the year ended June 30, 2016 was \$1,038,146.

NOTE 4 – LONG-TERM LIABILITIES

Long-term liability activity for the College for the year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
Accrued compensated absences	\$ 272,299	\$ 110,638	\$ 163,408	\$ 219,529	\$ 32,929

NOTE 5 – PENSION PLAN - EDUCATIONAL RETIREMENT BOARD

Plan Description. ERB was created by the state’s Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees’ Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state’s public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

Benefits Provided. A member’s retirement benefit is determined by a formula which includes three component parts: the member’s final average salary (FAS), the number of years of service credit, and a 0.0235 multiplier. The FAS is the average of the member’s salaries for the last five years of service or any other consecutive five-year period, whichever is greater. A brief summary of Plan coverage provisions follows:

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member’s age and earned service credit add up to the sum of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that is as follows: the member’s age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed

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JUNE 30, 2016**

NOTE 5 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013, the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Contributions. The contribution requirements of defined benefit plan members and the College are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2015 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2016 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross salary. Contributions to the pension plan from the College were \$857,755 for the year ended June 30, 2016.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2015. At June 30, 2016, the College reported a liability of \$13,813,418 for its proportionate share of the net pension liability. The College’s proportion of the net pension liability is based on the employer contributing entity’s percentage of total employer contributions for the fiscal year ended June 30, 2014. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, the College’s proportion was 0.21326 percent, which was a 0.00139 percent decrease from the prior year.

For the year ended June 30, 2016, the College recognized pension expense of \$173,695. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	256,088
Changes in assumptions	475,117	-
Net difference between projected and actual earnings on pension plan investments	-	62,178
Changes in proportion and differences between the employer’s contributions and proportionate share of contributions	11,861	70,101
Employer’s current year contributions	<u>857,755</u>	<u>-</u>
Ending balance	<u>\$ 1,344,733</u>	<u>388,367</u>

**STATE OF NEW MEXICO
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NOTE 5 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

\$857,755 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	(49,782)
2018	(42,987)
2019	(475)
2020	191,855
2021	-
Thereafter	-

Actuarial assumptions. As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2015 and 10.7% thereafter.
2. Members hired after June 30, 2014 will have an actuarially reduced retirement benefit if they retire before age 55, and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on June 12, 2015 in conjunction with the six year experience study period ending June 30, 2014.
5. For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

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NOTE 5 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.).

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NOTE 5 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Sensitivity of the College’s proportionate share of the net pension liability to changes in the discount rate. The following table shows the sensitivity of the net pension liability to changes in the discount rate as of the fiscal year end 2015. In particular, the table presents the College’s net pension liability under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The College’s proportionate share of the net pension liability	\$ 18,586,877	13,813,418	9,803,216

Pension plan fiduciary net position. Detailed information about ERB’s fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2015 is publicly available at www.nmerb.org.

NOTE 6 – POST EMPLOYMENT BENEFITS

Plan Description. Luna Community College contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978).

The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long- term care policies.

Eligible retirees are:

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

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NOTE 6 – POST EMPLOYMENT BENEFITS (CONTINUED)

The RHCA issues a publicly available stand-alone financial report that includes financial statement 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.

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, 2016, 2015 and 2014 were \$123,483, \$181,865, and \$177,514, 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.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8 – COMMITMENTS AND CONTINGENCIES

There were no commitments or obligations outstanding at June 30, 2016.

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 San Miguel, Guadalupe, Mora and Colfax Count 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. As of June 30, 2016, the College reported a property tax receivable in the amount of \$291,981.

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

	<u>Revenues</u>	<u>Expenses</u>
Budget basis (revenues) / expenditures	\$ (18,443,455)	17,836,706
Agency funds	(24,426)	18,909
Capital expenditures	-	(3,286,514)
Depreciation	-	1,038,146
Scholarship allowance	1,162,136	(1,162,136)
Pension	<u>(292,496)</u>	<u>73,063</u>
GAAP basis (revenue) / expense	<u>\$ (17,598,241)</u>	<u>14,518,174</u>

**STATE OF NEW MEXICO
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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	\$ 159,421	\$ -	\$ -	\$ 159,421
Certificates of Deposit				
Southwest Capital Bank	250,000	-	328,601	578,601
Community First Bank	116,474		116,474	116,474
Total	\$ 409,421	\$ -	\$ 445,075	\$ 854,496

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 did not have a matching provision during the current fiscal year.

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

NOTE 13 – 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.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 13 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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 February 2015, the GASB issued statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining the fair value and applying the fair value to certain investments and note disclosures. GASB Statement No. 72 was effective for periods ending after June 15, 2016. The adoption of GASB Statement No. 72 did not have a significant effect on the College's Financial Statements.

In June 2015, the GASB issued statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. This Statement establishes requirements for defined benefit pension plans and other pension plans not addressed under GASB Statement No. 68. This Statement also amends some requirements of GASB Statement No. 67 and GASB Statement No. 68. GASB Statement No. 73 clarifies requirements of GASB Statements No. 67 and 68 regarding the information that must be presented as notes to the required supplemental 10 year schedules, accounting and financial reporting for certain liabilities for individual employers and non-employer contributing entities, and the revenue recognition for non-employer contributing entities that are not in a special funding situation. This statement requires that all pensions under GASB Statement No. 68 that are not administered through trusts and meet the requirements of GASB Statement No. 68 not be classified as pension plan assets. The implementation of GASB No. 73 did not have an impact on the College's Financial Statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76, which supersedes Statement No. 55, aims to identify, in the context of the current governmental financial reporting environment, the

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 – RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

hierarchy of U.S. GAAP, which consists of the sources of accounting principles used to prepare the financial statements of state and local governments entities in conformity with U.S. GAAP, as well as the framework for selecting those principles. The College adopted GASB Statement No. 76 during fiscal year 2016, with no significant impact to the College’s financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria that must be met for an external investment pool to be permitted to measure its investments at the amortized cost for financial reporting purposes. This Statement also requires that the pool participants of external investment pools that meet the criteria also report their investments at the amortized cost for financial reporting purposes. External Investment Pools that not meet the requirement are required to follow paragraph 16 of GASB Statement No. 31. GASB Statement No. 79 requires additional note disclosures to be made in qualifying external investment pools financial statements. The additional note disclosures are also required to be made in the pool participants financial statements. The adoption of GASB Statement No. 79 did not have a significant impact on the College’s financial statements.

NOTE 15 – NEW ACCOUNTING PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2016.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

GASB Statement No. 77, Tax Abatement Disclosures

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

GASB Statement No. 80, Blending Requirements for Certain Units – an amendment to GASB Statement No. 14

GASB Statement No. 81, Irrevocable Split-Interest Agreements

GASB Statement No. 82, Pension Issues (an Amendment of GASB Statements No. 67, No. 68, and No. 73)

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

REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2016**

**New Mexico Educational Retirement Board Pension Plan
Schedule of Ten Year Tracking Data*
(Dollars in Thousands)**

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
College's Proportion of the Net Pension Liability (Asset)	0.21%	0.21326%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
College's Proportionate Share of Net Pension Liability (Asset)	\$ 12,247	13,813	-	-	-	-	-	-	-	-
College's Covered-Employee Payroll	\$ 5,917	5,823	-	-	-	-	-	-	-	-
College's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	207.00%	237.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.54%	63.97%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

*The amounts presented for each fiscal year were determined as of June 30, 2015

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF THE SCHOOL CONTRIBUTIONS
JUNE 30, 2016**

**New Mexico Educational Retirement Board Pension Plan
Schedule of Ten Year Tracking Data
(Dollars in Thousands)**

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually Required Contribution	\$ 778	843	-	-	-	-	-	-	-	-
Contributions in Relation to the Contractually Required Contribution	778	843	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	-	-	-	-	-	-	-	-	-

Increase (Decrease) in Pension Expense over Recognition Periods

Year	Total Amount Deferred	Amortization Years	Increase (Decrease) in Pension Expense over Recognition Periods									
			2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2015	\$ 1,278	5	335	335	329	279	-	-	-	-	-	-
2016	99	5	(50)	(43)	(0)	192	-	-	-	-	-	-
2017	-	5	-	-	-	-	-	-	-	-	-	-
2018	-	5	-	-	-	-	-	-	-	-	-	-
2019	-	5	-	-	-	-	-	-	-	-	-	-
2020	-	5	-	-	-	-	-	-	-	-	-	-
2021	-	5	-	-	-	-	-	-	-	-	-	-
2022	-	5	-	-	-	-	-	-	-	-	-	-
2023	-	5	-	-	-	-	-	-	-	-	-	-
2024	-	5	-	-	-	-	-	-	-	-	-	-
	<u>\$ 1,377</u>			<u>\$ 285</u>	<u>\$ 286</u>	<u>\$ 279</u>	<u>\$ 192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

Notes to Required Supplementary Information

Change of Benefit Terms. The COLA and retirement eligibility benefit changes in recent years are described in the *Benefits Provided* subsection of the financial statements note disclosure *Pension Plan – Educational Retirement Board*.

Change of Assumptions. ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on June 12, 2015, ERB implemented the following changes in assumptions for the fiscal year 2015.

1. Fiscal Year 2015 valuation assumptions that changed based on this study:
 - a. Lower wage inflation from 4.25% to 3.75%
 - b. Update the mortality tables to incorporate generational improvements
 - c. Update the demographic assumptions to use currently published tables, which may result in minor calculation changes
 - d. Remove population growth assumption for projections
 - e. Lower population growth from .50% to zero (no impact on valuation results)

2. Assumptions that were not changed:
 - a. Inflation rate will remain at 3.00%
 - b. Net real return assumption will remain at 4.75%
 - c. Investment return will remain at 7.75%
 - d. Payroll growth assumption will remain at 3.50%
 - e. Experience-based rates for members who joined NMERB by June 30, 2010 will remain the same.

See the *Actuarial Assumptions* subsection of the financial statement note disclosure *Pension Plan – Educational Retirement Board*.

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, 2016**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 1,867,050	3,783,368	3,783,368	-
Revenues:				
State general fund appropriations	8,780,801	8,728,201	8,728,204	3
Federal revenue sources	6,889,502	7,535,224	2,736,646	(4,798,578)
Tuition and fees	1,148,954	1,164,103	1,041,129	(122,974)
Endowment, land and permanent fund				-
Private gifts, grants and contracts	2,179,022	5,768,897	3,436,225	(2,332,672)
Other	2,585,905	2,581,876	2,501,251	(80,625)
Total revenues	<u>21,584,184</u>	<u>25,778,301</u>	<u>18,443,455</u>	<u>(7,334,846)</u>
Expenditures:				
Instruction	5,291,371	5,039,669	4,259,244	780,425
Academic support	579,377	1,562,010	1,182,241	379,769
Student services	1,962,870	1,772,433	1,594,797	177,636
Institutional support	2,536,275	2,465,723	2,127,120	338,603
Operation and maintenance of plant	2,085,638	2,070,970	1,893,128	177,842
Subtotal Instruction and general	<u>12,455,531</u>	<u>12,910,805</u>	<u>11,056,530</u>	<u>1,854,275</u>
Student social and cultural	20,645	20,645	17,331	3,314
Public service	422,297	577,283	359,784	217,499
Student aid	6,633,025	6,633,995	2,180,595	4,453,400
Auxiliary enterprises	757,822	757,822	644,213	113,609
Intercollegiate athletics	453,264	453,264	433,540	19,724
Capital outlay	1,691,232	5,136,614	2,848,314	2,288,300
Renewal and replacements	326,271	468,667	296,399	172,268
Total expenditures	<u>22,760,087</u>	<u>26,959,095</u>	<u>17,836,706</u>	<u>9,122,389</u>
Change in net assets (budgetary basis)	<u>(1,175,903)</u>	<u>(1,180,794)</u>	<u>606,749</u>	<u>(16,457,235)</u>
Ending fund balance	<u>\$ 691,147</u>	<u>2,602,574</u>	<u>4,390,117</u>	<u>(16,457,235)</u>

**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, 2016**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning Fund Balance	\$ 1,666,706	3,248,418	3,248,418	-
Revenues:				
Tuition and fees	1,128,309	1,135,717	1,013,151	(122,566)
Government appropriations - federal				-
Government appropriations - state	8,364,100	8,311,500	8,311,504	4
Government appropriations - local	1,500,000	1,500,000	1,826,819	326,819
Grants and contracts - federal				-
Grants and contracts - state				-
Grants and contracts - local				-
Gifts, grants and contracts - private				-
Endowments, land and permanent fund				-
Sales and service				-
Other sources	16,800	25,414	43,929	18,515
Total revenues	<u>11,009,209</u>	<u>10,972,631</u>	<u>11,195,403</u>	<u>222,772</u>
Expenditures:				
Instruction	4,503,944	4,539,069	3,962,757	576,312
Academic support	579,377	652,830	570,318	82,512
Student services	1,962,870	1,772,433	1,587,971	184,462
Institutional support	2,536,275	2,465,723	2,127,004	338,719
Operation and maintenance of plant	2,085,638	2,070,970	1,893,128	177,842
Total expenditures	<u>11,668,104</u>	<u>11,501,025</u>	<u>10,141,178</u>	<u>(1,175,007)</u>
Net Transfers to (from)	<u>474,913</u>	<u>460,719</u>	<u>400,474</u>	<u>60,245</u>
Change in net assets - budgetary basis	<u>(1,133,808)</u>	<u>(989,113)</u>	<u>653,751</u>	<u>1,337,534</u>
Ending fund balance	<u>\$ 532,898</u>	<u>2,259,305</u>	<u>3,902,169</u>	<u>1,337,534</u>

**RESTRICTED CURRENT FUNDS -
SUMMARY OF INSTRUCTION AND GENERAL
REVENUES AND EXPENDITURES BUDGET COMPARISONS
For the Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Tuition and fees	\$ -	7,741	10,647	3,236
Government appropriations - federal	-	-	-	-
Government appropriations - state	-	-	-	-
Government appropriations - local	-	-	-	-
Grants and contracts - federal	693,563	1,289,311	790,208	(499,103)
Grants and contracts - state	93,864	108,226	110,328	2,102
Grants and contracts - local	-	-	-	-
Gifts, grants and contracts - private	-	-	-	-
Endowments, land and permanent fund	-	-	-	-
Sales and service	-	-	-	-
Other sources	-	4,500	4,589	89
	<u>787,427</u>	<u>1,409,778</u>	<u>915,772</u>	<u>(493,676)</u>
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	<u>787,427</u>	<u>1,409,778</u>	<u>915,772</u>	<u>(493,676)</u>
Expenditures:				
Instruction	137,433	500,598	915,772	(415,174)
Academic support	649,994	909,180	-	909,180
Student services	-	-	-	-
Institutional support	-	-	-	-
Operation and maintenance of plant	-	-	-	-
Student aid	-	-	-	-
Total expenditures	<u>787,427</u>	<u>1,409,778</u>	<u>915,772</u>	<u>494,006</u>
Change in net assets - budgetary basis	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>330</u>

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2016

	<u>Wells Fargo</u>	<u>Southwest Capital Bank</u>		
Total amount on deposit at bank in checking accounts	\$ 27,504	4,453,922		
Total amount on deposit at bank in certificates of deposit	-	-		
FDIC Insurance	<u>(27,504)</u>	<u>(250,000)</u>		
Total uninsured public funds	<u>\$ -</u>	<u>4,203,922</u>		
50% collateral requirement (Section 6-10-17 NMSA 1978)	<u>\$ -</u>	<u>2,101,961</u>		
Pledged Collateral:				
Security	Receipt #	Location	Maturity	
FHLB: FED HOME BANK LOAN	3297000090	Southwest Capital Bank	January 25, 2017	\$ 1,900,000
FHLB: FED HOME BANK LOAN	3297000090	Southwest Capital Bank	January 25, 2017	400,000
Amount over collateralized				<u>\$ 198,039</u>

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF CASH AND CASH EQUIVALENTS
YEAR ENDED JUNE 30, 2016

College:

<u>Account Name</u>	<u>Type of Account</u>	<u>Balance Per Bank Statement</u>	<u>Reconciled Balance Per Books</u>
Wells Fargo			
Santa Rosa Account	Checking	\$ 17,103	17,102
Springer Account	Checking	<u>10,401</u>	<u>10,395</u>
	Total	<u>27,504</u>	<u>27,497</u>
Southwest Capital Bank			
General Disbursement	Checking	4,105,116	3,898,851
Payroll	Checking	296,731	132,273
Student Activity	Checking	<u>52,075</u>	<u>59,518</u>
		4,453,922	4,090,642
	Total	<u>\$ 4,481,426</u>	<u>4,118,139</u>

Foundation

Community 1st Bank			
Checking	Checking	\$ 159,421	159,421
Short-Term Investments	Certificate of Deposit	<u>116,474</u>	<u>116,474</u>
	Total	<u>275,895</u>	<u>275,895</u>
Southwest Capital Bank			
Short-Term Investments	Certificate of Deposit	<u>578,601</u>	<u>578,601</u>
	Total	<u>\$ 854,496</u>	<u>854,496</u>

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING
FOR THE YEAR ENDED JUNE 30, 2016

Administering Agency				LCC			Amount	Audit	Fiscal	Reporting
<u>Responsible Party</u>	<u>Description</u>	<u>Begin Date</u>	<u>End Date</u>	<u>Total Amount</u>	<u>Amount</u>	<u>as of 6.30.15</u>	<u>Party</u>	<u>Agent</u>	<u>Agency</u>	
Santa Rosa	Dual Credit	7.1.16	6.30.17	N/A	N/A	N/A	LCC	LCC	Both	
Quemado	Dual Credit	7.30.15	6.30.18	N/A	N/A	N/A	LCC	LCC	Both	
Mora Independent	Dual Credit	7.30.15	6.30.18	N/A	N/A	N/A	LCC	LCC	Both	
West Las Vegas	Dual Credit	7.1.15	6.30.16	N/A	N/A	N/A	LCC	LCC	Both	
United World College	Clinical Instruction/Nursing	8.1.15	8.30.17	N/A	N/A	N/A	LCC	LCC	Both	
Alta Vista Hospital	Clinical Instruction/Nursing	8.1.15	8.30.17	N/A	N/A	N/A	LCC	LCC	Both	
Guadalupe Co. Hospital	Clinical Instruction/Nursing	8.1.15	8.30.17	N/A	N/A	N/A	LCC	LCC	Both	
El Centro Health	Clinical Instruction/Nursing	8.1.15	8.30.17	N/A	N/A	N/A	LCC	LCC	Both	
Mora County	Clinical Instruction	8.1.15	6.30.16	N/A	N/A	N/A	LCC	LCC	Both	
Tooth Wranglers	Clinical Instruction	5.1.15	7.31.17	N/A	N/A	N/A	LCC	LCC	Both	
San Miguel Co. Detention	GED Prep/Literacy Improvement	7.1.15	6.30.16	N/A	N/A	N/A	LCC	LCC	Both	
City of Las Vegas	Rodriguez Park/Baseball Field	10.1.13	3.1.16	N/A	N/A	N/A	LCC	LCC	Both	
Superfan	Consultant	8.14.15	7.31.18	N/A	N/A	N/A	LCC	LCC	Both	
LCC	Cooperative Agreement	1.1.12	9.30.16	N/A	N/A	N/A	LCC	LCC	Both	
LCC	Clinical Instruction	2.1.12	1.31.15	N/A	N/A	N/A	LCC	LCC	Both	

STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF VENDORS
JUNE 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (if applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
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There were no contracts awarded for \$60,000 or more during the fiscal year.

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
Las Vegas, New Mexico
And
Mr. Tim Keller, 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 of Luna Community College ("the College") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated November 15, 2016.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses listed as finding 2016-001 for the College's Foundation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and

grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, and 2016-006 for the College and 2016-002 for the Foundation.

Luna Community College's Response to Findings

The College's response to the findings 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.

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

Albuquerque, New Mexico
November 15, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
Luna Community College
Las Vegas, New Mexico
And
Mr. Tim Keller, New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited the Luna Community College's ("the College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the College, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Albuquerque, New Mexico
November 15, 2016

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Award/Subaward Number	Federal Expenditures
United States Treasury			
AmeriCorps State and National	94.006	(15-16)	\$ 9,755
United States Small Business Administration			
Passed through the New Mexico Small Business Development Center			
Small Business Development Centers	59.037	(15-16)	20,689
United States Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007	(14-15)	620
Federal Supplemental Educational Opportunity Grants	84.007	(15-16)	50,450
Federal Work-Study Program	84.033	(14-15)	233.00
Federal Work-Study Program	84.033	(15-16)	30,174
Federal Pell Grant Program	84.063	(14-15)	2,841
Federal Pell Grant Program	84.063	(15-16)	1,525,522
Direct Loans Un-Subsidized	84.268	(14-15)	545
Direct Loans Subsidized	84.268	(15-16)	68,239
Direct Loans Un-Subsidized	84.268	(14-15)	4,549
Direct Loans Subsidized	84.268	(15-16)	164,187
Total Student Financial Aid Cluster			1,847,360
Higher Education Institutional Aid - Title V	84.031S	P031S120116-14	109,416
Higher Education Institutional Aid - Title V	84.031S	P031S120116-15	488,072
			597,488
Passed through New Mexico Highlands University			
Higher Education Institutional Aid - Title V	84.031C	P031S120116-14	8,913
Higher Education Institutional Aid - Title V	84.031C	P161468	43,790
Total passed through New Mexico Highlands University			52,703
Total Higher Education Institutional Aid - Title V			650,191
Passed through the State of New Mexico Higher Education Department			
Doctorial Dissertation Research Abroad	84.022	689888 (15-16)	46,706
Total Department of Education			2,544,257
United States Department of Health and Human Services			
Passed through the University of New Mexico			
AHEC-POSME	93.107	Subaward#3RF40	29,866
AHEC-POSME	93.107	Subaward#3RF40	58,918
			88,784
United States Department of Labor			
Youth Build	17.274	YB-23491-12-60-A-35	44,625
Youth Build	17.274	YB-23491-12-60-A-35	36,993
Total United States Department of Labor			81,618

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

National Science Foundation

Passed through New Mexico Tech

STEM Grant Transfer (STeP)	47.076	DUE-1161334 NMIMT#STEM10	1,748
STEM Grant Transfer (STeP)	47.076	DUE-1161334 NMIMT#STEM10	9,946
Total National Science Foundation			<u>11,694</u>

Total Federal Expenditures \$ 2,756,797

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

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, 2016. The information in this schedule is presented in accordance with Uniform Guidance, *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, 2016, the College processed \$237,520 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.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section A – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s report issued:	<u>Unmodified</u>
Internal control over financial reporting: Material Weakness reported?	Yes
Significant deficiencies reported not considered to be material weaknesses?	None noted
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weaknesses reported?	No
Significant deficiencies reported not considered to be material weaknesses?	None noted
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 Uniform Guidance?	No
Identification of major programs:	
Student Financial Assistance Cluster – Various CFDA numbers	
Dollar threshold used to distinguish Between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section B – Financial Statement Findings

2016-005 Purchase Order Obtained Subsequent to Purchase (Other Matters)

Condition: Through our cash disbursement testing we noted one out of 40 times, that a purchase order was obtained after services were rendered. The services were started in October 2015 and the purchase order was not issued until May 2016.

Criteria: The College's Finance and Administrative Policy states that a purchase cannot be made without prior approval and a purchase order. Additionally, 6-6-2.J NMAC 1978 states that expenditures must be monitored to ensure expenditures are made within budgetary constraints and to ensure expenditures are legal.

Effect: Purchases could be made in excess of the budget or unpermitted purchases could be made.

Cause: Employees have not been adequately trained on the College's purchasing policies and procedures.

Recommendation: We recommend that the College train all employees involved in the purchasing process on the College's and State's purchasing requirements.

Management's Response: Employees are trained in the purchasing process on the College's and State's purchasing requirements. In this instance, an exception was made in that the employee who processed the requisition in May was instructed by the President to wait until the legal matter investigation was completed to ensure confidentiality and independence.

Responsible Party: President Sanchez

Timeline for Corrective Action: Already in place.

2016-006 Lack of Supporting Documentation (Other Matters)

Condition: Through our cash disbursements testing, we identified one disbursement in which receipts were not attached for \$234 in meals expenses. Through our credit card testing, we also noted receipts were not attached for a Board Retreat. The total cost for the retreat was \$1,377.

Criteria: 2.42.2 NMAC requires receipts to be turned in for all actual reimbursement of meals. 6-6-2.J NMAC 1978 states that expenditures must be monitored to ensure expenditures are legal. Additionally, the College's Finance and Administrative Policy requires invoices and receipts to be turned in for payment to be processed.

Effect: The College is not in compliance with 2.42.2 NMAC and unallowable purchases could have been made.

Cause: Employees have not been adequately trained on the College's purchasing policies and procedures and 2.42.2 NMAC.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Recommendation: We recommend that the College train all employees involved in the purchasing process on the College's and State's purchasing requirements.

Management's Response: Employees are trained in the purchasing process on the College's and State's purchasing requirements. In the instance of the \$243, the receipts had been submitted but were inadvertently misplaced by the employee submitting them. In the instance of the credit card charge for rooms and catering, the employee processing the payment had not required additional information prior to payment for those types of expenses as the charge was exactly what the purchase order was for. The employee has implemented a revised procedure requiring receipts for those types of expenses: hotel, catering, air fare, that are paid with the credit card or any form of payment.

Responsible Party: Accounts Payable staff and all employees incurring charges and expenditures.

Timeline for Corrective Action: Already in place.

Section C – Federal Award Findings and Questioned Costs

None.

Section D – Other Matters as required by New Mexico State Statute 12-6-5, NMSA 1978

2016-001 Hiring Process (Other Matters)

Condition: During the fiscal year, the President approved an employment contract for a direct family member. The hiring of the President's family member was not approved by the Board.

Criteria: The College's Staff Handbook states that the President cannot initially employ or approve the initial employment of a direct family member.

Effect: The College violated the nepotism policy.

Cause: There were no other qualified applicants.

Recommendation: We recommend the College follow its nepotism policy in the hiring of new employees.

Management's Response: The amendment of LCC's nepotism policy, to permit the hiring of the President's family members was first adopted by the LCC Board of Trustees at its regular monthly meeting held on July 21, 2015, two and a half months before the President's direct family member was hired as a Temporary Part-Time Employee on October 1, 2015. The July 21, 2015 meeting agenda includes as Action Item VII (2), "Discussion and Action amending the Board's Nepotism Policy," and the meeting minutes at page 6, indicate that a motion to amend the nepotism policy was duly made, seconded and adopted by the Board of Trustees. By its action on July 21, 2015, before the hiring of the President's direct family member, the LCC Board intended to, and effectively did, amend the nepotism policy to permit direct family members and relatives of the President to be employed at Luna Community College. The Board's nepotism policy amendment was reported in the Las Vegas Optic on July 27, 2015, and the Optic news

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LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

article makes clear what the Board did the week before: “The board voted on Tuesday to eliminate the prohibition against close relatives of the president being hired to work at Luna.”

Due to inadvertence, mistake or neglect, the Board’s nepotism policy amendment of July 21, 2015, was neither memorialized in written form nor adequately reported in the minutes of that meeting. For this reason, a year later, at its meeting of July 20, 2016, the Board took action to reaffirm its nepotism policy amendment of July 21, 2015, and the minutes of the Board’s meeting of July 20, 2016, properly reflect that the Board reaffirmed its nepotism policy amendment made a year earlier, allowing direct family members and close relatives of the President to be employed at Luna Community College, and the amendment was formalized in written form and is now included in the LCC Staff Handbook.

Even if the July 2015 nepotism amendment is viewed as ineffective because it was not properly reflected in the meeting minutes or not memorialized in writing, this governmental and document deficiency cannot lawfully defeat nor diminish the good faith belief and reliance by LCC’s Board and President, that the amendment was effective when adopted on July 21, 2015, thus permitting the lawful hiring of the President’s direct family member on October 1, 2015.

The direct family member was a Volunteer Softball Coach from August 20, 2015 through September 30, 2015. A TERF (Temporary Employee Request Form) was initiated and signed by Previous Head Softball Coach on September 29, 2015 for a Temporary Part-Time Specialized Assignment for the direct family member as Assistant Softball Coach. Temporary Part-Time positions are hired to work less than forty (40) hours per week for a term less than twelve (12) months. The following also signed the TERF as it is part of LCC’s internal controls and segregation of duties; VP of Instruction, (Involves Academics), Human Resources Director, (Verifies type of contract per Director’s need, ID is valid along with all information provided on the form, justification and new hire paperwork are in place), VP for Finance and Administration (Verifies funding is available and funding account numbers are correct), and President (Approves the hire or change).

Responsible Party: Human Resources/Administration

Timeline for Corrective Action: Nepotism Policy was revised on July 20, 2016 to allow the Board to hire direct family members of the President. It was later revised on October 18, 2016 to not allow a hire of a direct family member of the President or Board of Trustees.

2016-002 Presidential Search (Other Matters)

Condition: The Board elected to terminate the Presidential search and hired the interim President without completing the Presidential search as required by Section 21-1-16.1 NMSA 1978.

Criteria: According to Section 21-1-16.1 NMSA 1978, the Board of a Higher Education entity is required to consider a minimum of five finalists in the hiring of a President. The finalist list must be published in a national and state or local newspaper.

Effect: The College is not in compliance with State Statute.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Cause: The Board was unaware of the requirements for the Presidential search.

Recommendation: We recommend, the Luna Community College, become familiar with the requirements of Section 21-1-16.1 NMSA 1978. Additionally, the Board should create and implement policies and procedures to ensure they follow State Statute in the hiring of subsequent Presidents.

Management's Response: The Presidential search has always occurred between the Board of Trustees and Administration. LCC acknowledges that the Board of Trustees has at all substantial times acted under a good faith belief that Section 21-1-16.1 NMSA 1978, does not apply to Luna Community College, and for this reason the President was employed without implicating the requirements of the statute. (Reference is made that the Board of Trustees was under the impression that Section 21-1-16.1 was only applicable to constitutional institutions and not community colleges.)

LCC believes that this presents a legal question of first impression in New Mexico because Section 21-1-16.1, NMSA 1978 is a recent statutory enactment passed by the Legislature in 2011, and there exists a reasonable difference of opinion concerning the application of the statute.

LCC believes the general statutory language of Section 21-1-16.1 NMSA 1978 may give way to the specific statutory scheme contained in the Community College Act, NMSA 1978, Chapter 21, Article 13(1963). In particular, Section 21-13-10 of the Community College Act contains no presidential search requirements, and provides only that "the community college board shall provide for the management of the community college and execution of these policies by selecting a competent president for the community college."

LCC also believes that even the questions of whether a community college is "an institution of higher education" as contemplated by Section 21-1-16.1 NMSA 1978, must be reconciled with the specific language of Section 21-13-2 of the Community College Act, which defines a community college as a "public educational institution." Also implicated in this analysis is whether Section 21-1-16.1 NMSA 1978 is intended to apply exclusively to state constitutional institutions enumerated in Article XII, Section 11 of the New Mexico Constitution.

The LCC Board of Trustees having appointed the President under the good faith and reasonable belief that Section 21-1-16.1 NMSA 1978 (2011) does not apply to Luna Community College.

Responsible Party: Board of Trustees/Administration/Human Resources

Timeline for Corrective Action: LCC has sought an opinion from the New Mexico Attorney General on the following question of law: Does Section 21-1-16.1 NMSA 1978 (2011) apply to the elected governing board of Luna Community College, a community college organized and existing under and by virtue of the Community College Act, NMSA 1978, Chapter 21, Article 13 (1963)?

2016-003 Procurement (Other Matters)

Condition: The College did not obtain three quotes for the installation of flooring. The total cost of the installation was for a total of \$10,946. The College obtained two quotes for purchases and documented that the third vendor did not respond.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Criteria: The College's Finance and Administration Policy requires three written quotes to be obtained for all purchases between \$1,500 and \$20,000.

Effect: The College is not in compliance with its own policy.

Cause: The College was not aware of this requirement.

Recommendation: We recommend that the College provide training to all employees making purchases to ensure they are aware of the College's purchasing requirements.

Management's Response: For the installation, three local vendors were contacted and because the work was to be begin as soon as possible to continue during the Christmas break, the college proceeded with evaluating the two quotes received and selected the lowest cost. However, this reason was not documented as part of the procurement file.

Responsible Party: Plant Director

Timeline for Corrective Action: Three quotes will be obtained when required and "If three written quotes cannot be obtained, the agency shall document the reasons and include the document in the procurement file" (NMAC 1.4.1.51).

2016-004 Fixed Asset Inventory Count (Other Matters)

Condition: The College did not complete a fixed asset inventory count during the fiscal year.

Criteria: Per 2.20.1.16 NMAC, a physical inventory count must be conducted of all assets with a historical cost of \$1,000 or more. At the completion of the physical inventory count a written inventory report must be certified and signed by the governing authority of the entity.

Effect: The College is not in compliance with 2.20.1.16 NMAC.

Cause: The College did not have the resources to complete a physical inventory count.

Recommendation: We recommend the College conduct a complete fixed inventory count and remove all obsolete and missing fixed assets from the fixed asset listing.

Management's Response: *The staff responsible for the physical inventory was not fully aware of the process and was attempting to reconcile the system fixed asset record to a new system he was implementing when he encountered discrepancies which hindered the progress. It has been determined by the college to hire a third part vendor who specializes in fixed assets inventories and other reconciling services to verify and assist in compiling an accurate inventory list and valuation thereof.*

Responsible Party: Fixed Asset custodian

Timeline for Corrective Action: 1) The contracting with the third party is in process which will establish a correct base for the entire fixed asset inventory. 2) A written plan with timelines and

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LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

procedures will be established by the fixed asset custodian before the year end to serve as a guide for conducting the annual year-end inventory.

Section E – Luna Community College Foundation Internal Controls

2016-001 Financial Report and Close (Material Weakness)

Condition: In regards to the financial report and close of the Foundation, the following issues were identified:

- 1) The Foundation switched its accounting software with the change in Directors. When software applications were switched, the Foundation did not enter the accounting activity for July 1, 2015 through December 31, 2015.
- 2) Bank reconciliations, were not performed for July 2015 through December 2015.
- 3) Bank reconciliations for January 2016 – June 2016 were not performed timely. The bank reconciliations were not performed until a work study employee was hired after the fiscal year end.

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

Effect: Material misstatements either due to fraud or error could have gone unnoticed.

Cause: The Foundation did not adequately design and implement internal controls to maintain the integrity and reporting of financial data.

Recommendation: We recommend the Foundation perform bank reconciliations on a monthly basis and ensure all accounting data is entered into the accounting software on a timely basis.

Management's Response: The foundation has taken corrective measures by contracting with the foundation's CPA. His firm will be reconciling accounts on a monthly basis for the foundation.

Responsible Party: Foundation Director

Timeline for Corrective Action: The Foundation's accountant/CPA has reconciled and made all the corrections to accounts in QuickBooks as of October and will be reconciling all accounts from now on.

2016-002 Scholarships (Other Matters)

Condition: Through our testing of scholarship disbursements, we noted that four students received more than the maximum allowed scholarship of \$500. The amount distributed in excess of the allowance was \$306. We also noted that a scholarship for \$163 was distributed to a student who did not meet the

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

minimum GPA requirement of a 2.0 and was not enrolled in the minimum requirement of six hours for the semester the scholarship was received.

Criteria: Per the Foundation Scholarship Application instructions, a student must have a minimum GPA of a 2.0 and must be enrolled in a minimum of six credit hours at the College in order to be eligible for aid. The instructions also state that no student should receive more than \$500 in one semester.

Effect: The Foundation is not in compliance with its own policies and procedures.

Cause: The Foundation personnel are not following the policies and procedures.

Recommendation: We recommend the Foundation personnel start following its policies and procedures for Scholarship Disbursements.

Management's Response: The LCC Foundation Board approved the overages to accommodate the students' financial need for that semester they were aware of the overages and felt that some modifications to the criteria were necessary to try and help more students as applications are reviewed on an individual basis.

The student was awarded \$163 to complete the lab portion of his CDL training. The CDL does not qualify for federal or state aid through the FAFSA, so he did not fill one out. He had completed all his course work but needed more practice behind the wheel to pass the driving portion of the exam. The student had exhausted all funds so he asked the foundation for assistance. The LCC Foundation Board approved the scholarship so the student was able to obtain his CDL license after taking the additional lab and passing the driving portion of his CDL exam.

Responsible Party: Foundation Director and Board

Timeline for Corrective Action: The foundation board has brought up concerns that the criteria for scholarship does not take into account certificate programs and needs to be more flexible as applications are viewed on an individual basis. The board will be having a special meeting to review the current scholarship policy and change where necessary.

NOTE TO SCHEDULE OF FINDING AND QUESTIONED COSTS

The New Mexico Higher Education Department performed a special audit and issued its report dated October 26, 2016. The report and further information can be obtained by writing to the New Mexico Higher Education Department at 2044 Galisteo Street, Suite 4 Santa Fe, NM 87505-2100.

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2016**

Status of Prior Year Audit Findings	Current Status
2015-001 Review and approval of payroll journal entries	Resolved

**STATE OF NEW MEXICO
LUNA COMMUNITY COLLEGE
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2016**

The contents of this report were discussed in the exit conference held on November 15, 2016. The parties agreed to the factual accuracy of the comments contained herein. In attendance were the following individuals:

Representing the Board of Trustees of Luna Community College

Daniel Romero Board Chair

Representing Luna Community College

Leroy Sanchez President
Donna Flores-Medina Vice President of Finance and Administration
Evelyn Montoya Executive Office Manager, Finance and Administration
Francina Martinez Comptroller
Leticia Archuleta Human Resources Director
Michael Montoya Student Financial Aid Director

Representing Luna Community College Foundation

Gil Gonzales Executive Director Foundation
Antonio Ortega Foundation Board Chair

Representing Axiom CPAs and Business Advisors, LLC.

Chris Garner Partner