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ACHIEVING RESULTS

State of
New Mexico
Luna Community
College

Annual Financial Report
For the Year Ended June 30, 2017

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
Luna Community College
Annual Financial Report
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STATE OF NEW MEXICO
Luna Community College
Official Roster
June 30, 2017

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
U.S. Office of Management and Budget and
Luna Community College Board
Luna Community College
Las Vegas, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Luna Community College (the "College"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons presented as supplementary information, as defined by the Governmental Accounting Standards Board as of and for the year ended June 30, 2017, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of 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 College'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 College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Basis for Adverse Opinion

The financial statements referred to above do not include financial data for the College's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the College's primary government, as part of the financial reporting entity as a whole. As noted in item CU 2016-001 in the schedule of findings and questioned costs, the financial statements for the component unit were not available to be audited. Because of this material departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component unit are unknown and are not included in the College's financial statements.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the College or the discretely presented component unit of the College, as of June 30, 2017, or the changes in financial position or, 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

Management has omitted the *Management Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the Schedules I and II on pages 38 and 39 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 Department who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements and the budgetary comparisons. The introductory section, the Schedule of Expenditures of Federal Awards as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Schedules III and IV 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 Schedules III and IV required by 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 financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described above in the Basis for Adverse Opinion paragraph, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

The introductory section 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, NM
November 1, 2017

BASIC

FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Luna Community College
Statement of Net Position
June 30, 2017

Exhibit A-1

Assets	**Primary Government**
Current assets:	
Cash and cash equivalents	$ 4,533,824
Accounts receivable, net	88,516
Property tax receivable	267,262
Grants receivable	605,101
Inventory	202,014
Total current assets	5,696,717
Non-current assets:	
Capital assets, net	21,295,397
Total non-current assets	21,295,397
Total assets	26,992,114
Deferred outflows:	
Deferred outflows - employer contributions subsequent to the measurement date	771,543
Deferred outflows - changes of assumptions	316,537
Deferred outflows - differences between expected and actual experience	67,462
Deferred outflows - net difference between projected and actual earnings on pension plan investments	928,209
Deferred outflows - change in proportion and differences between contributions and proportionate share of contributions	138,234
Total deferred outflows	2,221,985
Total assets and deferred outflows	$ 29,214,099
Liabilities and Net Position	
Current liabilities:	
Accounts payable	$ 203,277
Accrued expenses	83,846
Unearned revenues	447,999
Compensated absences	35,228
Total current liabilities	770,350
Non-current liabilities:	
Compensated absences	199,624
Net pension liability	15,550,054
Total non-current liabilities	15,749,678
Deferred inflows:	
Deferred inflows - differences between expected and actual experience	147,901
Deferred inflows - change in proportion and differences between contributions and proportionate share of contributions	42,951
Total deferred inflows	190,852
Total liabilities and deferred inflows	16,710,880
Net position:	
Net investment in capital assets	21,295,397
Unrestricted	(8,792,178)
Total net position	12,503,219
Total liabilities and net position	$ 29,214,099

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO Exhibit A-2

Luna Community College

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2017

	Primary Government
Operating revenues:	
Student tuition, fees and trainings	$ 988,383
Tuition discounts and allowances	(502,091)
	486,292
Federal grants and contracts	2,670,398
State and other grants and contracts	467,721
Private gifts and grants	64,385
Auxiliary enterprises	602,370
Other	42,740
Total operating revenues	4,333,906
Operating expenses:	
Instruction and general	
Instruction	4,513,843
Academic support	796,470
Student services	1,663,589
Institutional support	2,197,858
Operation and maintenance of plant	2,055,386
Total instruction and general	11,227,146
Public service	445,808
Student aid grants and stipends	2,071,996
Tuition discounts and allowances	(502,091)
Auxiliary enterprises	562,135
Agency funds	10,489
Athletics	520,406
Student activities	20,464
Renewals and replacements	284,474
Depreciation	1,109,616
Total operating expenses	15,750,443
Operating loss	(11,416,537)
Non-operating revenues (expenses):	
State appropriations	9,140,841
Local property tax levy	1,923,048
Interest and investment income	5,585
Other revenue and (expenses)	(57,050)
Net non-operating revenues (expenses)	11,012,424
Change in net position	(404,113)
Net position, beginning of year	12,907,332
Net position, end of year	$ 12,503,219

The accompanying notes are an integral part of these financial statements.

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STATE OF NEW MEXICO

Exhibit A-3

Luna Community College
Statement of Cash Flows
For the Year Ended June 30, 2017

		Primary Government
Cash flows from operating activities:		
Tuition, fees and trainings	$	530,562
Federal and state grants and contracts		3,202,504
Auxiliary enterprise charges		602,370
Other operating receipts		42,740
Payments to employees and for employee benefits		(8,710,795)
Payments to suppliers		(5,076,033)
Net cash used by operating activities		(9,408,652)
Cash flows from noncapital financing activities:		
Governmental grants and appropriations		9,355,993
Property taxes		1,947,767
Miscellaneous expenses		(57,050)
Net cash provided by noncapital financing activities		11,246,710
Cash flows from capital financing activities:		
Purchase of capital assets		(1,427,958)
Net cash provided by capital financing activities		(1,427,958)
Cash flows from investing activities:		
Interest received		5,585
Net cash used by investing activities		5,585
Net increase in cash and cash equivalents		415,685
Cash and cash equivalents - beginning of year		4,118,139
Cash and cash equivalents - end of year	$	4,533,824
Operating Loss	$	(11,416,537)
Reconciliation of operating loss to net cash used by operating activities:		
Depreciation expense		1,109,616
Noncash pension expense		575,657
Changes in assets, deferred outflows, and liabilities, and deferred inflows:		
Accounts receivable, net		(38,410)
Inventory		21,346
Accounts payable		71,615
Contributions subsequent to the measurement date		86,212
Accrued expenses		83,846
Unearned revenues		82,680
Compensated absences		15,323
Net cash used by operating activities	$	(9,408,652)

The accompanying notes are an integral part of these financial statements.

NOTE 1. Summary of Significant Accounting Policies

1. *Organization*

Luna Vocational Technical Institute was established in 1967, in accordance with laws of the State of New Mexico to provide occupational training opportunities to residents of northeastern New Mexico. Over the years the Institute has grown into a comprehensive community college, and in December, 2000, the Board of Directors approved to change its name to Luna Community College (the "College"). Luna Community College offers a variety of educational opportunities and services to meet needs in the lifelong process of personal and professional development. The College's goal of providing educational and training programs that prepare students for careers in technical and vocational fields include developing basic academic skills for successful post-secondary study; preparing individuals for employment, career updating, and job advancement; associates degrees and the first two years of study for those seeking transfer to a four-year college, and comprehensive student development services which provide student support and assistance. The College receives funding primarily from state appropriations with additional funding from federal and local sources, and must comply with the spending, reporting, and recordkeeping requirements of these entities. It is not a component unit of any other governmental entity.

This summary of significant accounting policies of the College is presented to assist in the understanding of the College's financial statements. The financial statements and notes are the representation of College's management who is responsible for their integrity and objectivity. The financial statements of the College have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities.

During the year ended June 30, 2017, the College adopted GASB Statements 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 67 and 68* (partial), No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* No. 77, *Tax Abatement Disclosures,* No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and* No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14,* and No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.* These five Statements are required to be implemented as of June 30, 2017, if applicable.

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the College, as its pension plan is within the scope of Statement 68.

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the College's financial statements directly; however, the effects on the College's OPEB plan, administered through the New Mexico Retiree Health Care Authority, will be seen in future periods.

NOTE 1. Summary of Significant Accounting Policies (continued)

1. *Organization (continued)*

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

As of June 30, 2017 there were no tax abatements that would affect the College.

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The College's pension plan does not meet the criteria for exclusion.

NOTE 1. Summary of Significant Accounting Policies (continued)

1. Organization (continued)

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended.* This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

2. Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* the accompanying financial statements present the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows of Luna Community College.

In evaluating how to define the government for financial reporting purposes, the College has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the College's operations. Each discretely presented component unit is reported in a separate column in the College's financial statements to emphasize that it is legally separate from the College.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

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 government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the College has one component unit required to be reported under GASB Statements No. 14, No. 39, No. 61, and No. 80 as there is one discretely presented component unit, the Luna Community College Foundation, Inc. This component unit does not have separately issued financial statements and should be reported as a discretely presented component unit under GAAP.

NOTE 1. Summary of Significant Accounting Policies (continued)

2. Reporting Entity (continued)

However, the College has not included the financial information of the component unit due to not having accounting records and the underlying source documents and financial data available for fiscal year 2017. The effect of this GAAP departure has not been determined. The College does not have any other related organizations, joint ventures, or jointly governed organizations.

3. Financial Statement Presentation

The accounting and reporting policies of the College reflected in the accompanying financial statements conform to accounting principles generally acceptable in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standards*. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

As a public institution, the College is considered a special purpose government under the provisions of GASB Statement No. 35. The College records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged in business-type activities. This model allows all financial information for the College to be reported in a single column in each of the financial statements. The effect of internal activity between funds or groups has been eliminated from these financial statements.

4. Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

5. Management's Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. The more significant estimates included in the financial statements include allowances for uncollectible student accounts receivable, net pension liability and related deferred inflows and outflows, and the estimated useful lives and depreciation of capital assets.

6. Cash and Cash Equivalents and Statement of Cash Flows

For purposes of the statement of cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Immediate cash needs are met with resources deposited at the College's bank. Cash and cash equivalents include cash on hand and cash in banks, including savings and money market accounts with an original maturity of 3 months or less.

NOTE 1. Summary of Significant Accounting Policies (continued)

6. Cash and Cash Equivalents and Statement of Cash Flows (continued)

At June 30, 2017, the amount of cash and cash equivalents reported on the financial statements differs from the amount on deposit with the various financial institutions because of transactions in transit and outstanding checks.

7. Receivables

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

8. Unearned Revenues and Expenditures

Unearned revenue relates to state grants awarded and received during the current fiscal period for classes to be held in the following period. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property tax receivables are recognized in the period for which the taxes are levied, net of estimated refunds and uncollectible amounts.

9. Inventories

Inventories consist of items held for resale or exchange within the College. The bookstore inventory within the current unrestricted fund is valued at the lower of cost or market. This cost method is applied on a basis consistent with prior year.

10. 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 per 12-6-10 NMSA 1978, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally 30 years for buildings and improvements, and 5 to 12 years for equipment (including software).

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

NOTE 1. Summary of Significant Accounting Policies (continued)

10. Capital Assets (continued)

Property, plant, and equipment of the College are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	20
Vehicles	5
Equipment and furniture	5
Heavy Duty Equipment	12

11. Compensated Absences

Accumulated unpaid vacation is accrued when incurred in the current unrestricted fund. 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).

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the statement of net position.

12. Revenue

Operating revenue includes activities that have the characteristics of an exchange transaction, such as a) student tuition and fees, net of scholarship discounts and allowances; b) sales and services; c) most federal, state, and local grants and contracts; and d) interest on institutional student loans.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as a) appropriations, b) taxes, c) gifts, and d) investment income. These revenue streams are recognized under GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*. Revenues are recognized when all applicable eligibility requirements have been met.

13. Economic Dependency

The College depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the College is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

14. Net Position

The College's net position is classified into the following net position categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation, amortization, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

NOTE 1. Summary of Significant Accounting Policies (continued)

14. Net Position (continued)

Restricted:

Nonexpendable: Net position subject to externally imposed conditions that the College retain them in perpetuity. All amounts for the primary government (if applicable) that are restricted in the statement of net position are considered restricted by enabling legislation.

Expendable: Net position subject to externally imposed conditions that can be fulfilled by the actions of the College or the passage of time.

Unrestricted: All other categories of net position. In addition, unrestricted net position may be designated for use by management of the College. This requirement limits the area of operations for which expenditures of net position may be made, and require that unrestricted net position be designated to support future operations in these areas. The College has adopted a policy of utilizing restricted – expendable funds, when available, prior to unrestricted funds.

15. Budgetary Process

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

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appointed in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, such appropriated balance is legally restricted and is therefore presented as restricted fund balance.

To amend the budget, the College requires the following order of approval: (1) College President, (2) College Board Members, (3) Commission on Higher Education, and (4) State Department of Finance and Administration.

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for expenditures to the College in subsequent years pursuant to the General Appropriation Act of 2004, Section 4, J (Higher Education).

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 expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; and (4) within the plant funds budget, the items of budgetary control are major projects, equipment bonds, minor capital outlay, and renewals and replacements.

Budgets are adopted on a basis of accounting that is not in accordance with accounting principles generally accepted in the United States of America. The purpose of the Budget Comparison is to reconcile the change in net position as reported on a budgetary basis to the change in net position as reported using generally accepted accounting principles. The reporting of actuals (budgetary basis) is a non-GAAP accounting method that excludes depreciation expense and includes the cost of capital equipment purchases.

NOTE 1. Summary of Significant Accounting Policies (continued)

16. Income Tax Status

The College, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115(a) 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 5019(c)(3) of the Internal Revenue Code.

17. Property Tax Calendar

Property Taxes attached as an enforceable lien on property as of January 1st. The taxes are levied each year on July 1 based on the assessed value of property listed on the previous January 1, and are due in two payments by November 10th and April 10th. The taxable valuations for the various classes of property are determined by San Miguel, Guadalupe, Mora, Colfax, and Union County Assessors. Property taxes uncollected after May 10th are considered delinquent. As of June 30, 2017 the College reported a property tax receivable in the amount of $267,262.

18. 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 of the Educational Retirement Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis 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.

19. Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources. The College has two types of items that fall into this category, which arises due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, differences between expected and actual experience of $147,901 and change in proportion and differences between contributions and proportionate share of contributions of $42,951, is reported on the Statement of Net Position. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

20. Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The College has five types of items that qualify for reporting in this category.

NOTE 1. Summary of Significant Accounting Policies (continued)

20. Deferred Outflows of Resources (continued)

Accordingly, the items, changes in proportion of $138,234, changes of assumptions of $316,537, the net difference between projected and actual investment earnings on pension plan investments of $928,209, employer contributions subsequent to measurement date of $771,543, and the differences between expected and actual experience of $67,462 are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources in future periods.

NOTE 2. Deposits and Investments

State statutes authorize the investment of College funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the College properly followed State investment requirements as of June 30, 2017.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the College. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

All of the College's accounts at an insured depository institution, including non-interest bearing accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for all deposit accounts up to $250,000 for all time and savings accounts, plus up to $250,000 for all demand deposit accounts held at a single institution in state.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). As of June 30, 2017, $4,687,486 of the College's bank balances of $4,965,383 was exposed to custodial credit risk. $2,387,486 of the College's deposits were uninsured and uncollateralized at June 30, 2017.

NOTE 2. Deposits and Investments (continued)

	Southwest Capital Bank	Wells Fargo Bank	Total
Total amount of deposits	$ 4,937,486	$ 27,897	$ 4,965,383
Deposit accounts covered by the FDIC coverage	(250,000)	(27,897)	(277,897)
Total uninsured public funds	4,687,486	-	4,687,486
Collateralized by securities held by the pledging institution or by its trust department or agent other than the College's name	2,300,000	-	2,300,000
Uninsured and uncollaterized	$ 2,387,486	$ -	$ 2,387,486
Collateral requirement (50% of uninsured public funds)	$ 2,343,743	$ -	$ 2,343,743
Pledged security	2,300,000	-	2,300,000
Under collateralization	$ (43,743)	$ -	$ (43,743)

The collateral pledged is listed on Schedule IV of this report.

Reconciliation of Deposits to the Statement of Net Position:

Deposits	$ 4,965,383
Add reconciling items	(431,559)
Total cash and cash equivalents and investments	$ 4,533,824
Statement of Net Position:	
Cash and cash equivalents	$ 4,533,824

NOTE 3. Accounts Receivable

The College's accounts receivable at June 30, 2017 represent revenues earned from student tuition and fees, loans, local tax levy, federal government grants and contracts, and State of New Mexico agencies that include pass through federal and state grants. All amounts are expected to be collected, however, an allowance for uncollectible accounts has been established for student accounts judged to be uncollectible due to the age of the receivables. A schedule of receivables and allowance for uncollectible accounts is as follows:

Student receivables	$ 923,010
Less allowance for uncollectible accounts	(834,494)
Student receivables, net	88,516
Property tax receivables	267,262
Federal grants receivable	170,821
State grants receivable	434,280
Net total accounts receivable	$ 960,879

NOTE 4. Capital Assets

The following table summarizes the changes in the College's capital assets during the fiscal year ended June 30, 2017. Land and construction in progress are not subject to depreciation expense.

	June 30, 2016	Additions	Deletions	June 30, 2017
Assets not being depreciated:				
Land	$ 2,322,078	$ -	$ -	$ 2,322,078
Construction in progress	1,448,608	1,288,627	413,373	2,323,862
	3,770,686	1,288,627	413,373	4,645,940
Assets being depreciated:				
Buildings	30,528,998	-	-	30,528,998
Building improvements	8,622,193	413,373	-	9,035,566
Automobiles	847,510	44,287	-	891,797
Equipment and furniture	4,767,926	95,044	-	4,862,970
	44,766,627	552,704	-	45,319,331
Totals	48,537,313	1,841,331	413,373	49,965,271
Less accumulated depreciation:				
Buildings	19,025,143	649,860	-	19,675,003
Building improvements	3,555,225	221,513	-	3,776,738
Automobiles	664,065	88,465	-	752,530
Equipment and furniture	4,315,825	149,778	-	4,465,603
	27,560,258	1,109,616	-	28,669,874
Net capital assets	$ 20,977,055	$ 731,715	$ 413,373	$ 21,295,397

Depreciation expense as of June 30, 2017 was $1,109,616.

NOTE 5. Compensated Absences

Accumulated unpaid vacation is accrued when incurred. Employees entitled to earn vacation pay earn it at various rates based on length of employment. Up to 240 hours of vacation may be accrued and paid out upon termination. Sick leave is not paid out upon termination; accordingly, no liability for sick leave is recorded by the College. The College had a liability for accrued vacation as of June 30, 2017 as follows:

Accrued vacation – beginning of year	$	219,529
Additions		167,982
Deletions		(152,659)
Accrued vacation – end of year	$	234,852

The College estimates that $35,228 will be due within one year.

NOTE 6. Post-Employment Benefits – State Retiree Health Care Plan

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

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

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

NOTE 6. Post-Employment Benefits – State Retiree Health Care Plan (continued)

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal member cover plans 3, 4, or 5; municipal fire member cover 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, 2017, the statutes required each participating employer to contribute 2.50% 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, 2017, the statute required each participating employer to contribute 2.00% of each participating employee's annual salary; and each participating employee was required to contribute 1.00% 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, 2017, 2016, and 2015 were $166,719, $123,483 and $181,865, respectively, which equal the required contributions for each year.

NOTE 7. Pension Plan – Educational Retirement Board

General Information about the Pension Plan

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 or 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.

NOTE 7. Pension Plan – Educational Retirement Board (continued)

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 date 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 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 100% survivor's benefit; or single life annuity monthly benefit is 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.

NOTE 7. Pension Plan – Educational Retirement Board (continued)

Contributions. The contribution requirements of plan members and the College are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2017 employers contributed 13.90% 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 10.70% of their gross annual salary. For fiscal year ended June 30, 2017 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 annual salary. Contributions to the pension plan from the College was $771,543 for the year ended June 30, 2017.

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, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016. At June 30, 2017, the College reported a liability of $15,550,054 respectively for their 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, 2016. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2016, the College's proportion was 0.21608 percent, which was an increase of 0.00282 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the College recognized pension expense of $1,825,922. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 67,462	$ 147,901
Net difference between projected and actual earnings on pension plan investments	928,209	-
Changes of assumptions	316,537	-
Changes in proportion and differences between contributions and proportionate share of contributions	138,234	42,951
Employer contributions subsequent to the measurement date	771,543	-
Total	$ 2,221,985	$ 190,852

$771,543 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

NOTE 7. Pension Plan – Educational Retirement Board (continued)

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:		
2018	$	(256,931)
2019		(299,925)
2020		(476,382)
2021		(226,352)
Thereafter		-
Total	$	(1,259,590)

Actuarial assumptions. The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on actuarial valuation and performed as of June 30, 2015. The liabilities reflect the impact of Senate Bill 115, signed into law March 29, 2013 and new assumptions adopted by the Board of Trustees on June 12, 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 10.70% during the fiscal year ending June 30, 2016 and thereafter.

2. Members hired after June 30, 2013 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 the Board on June 12, 2015 in conjunction with the six year experience study period ending June 30, 2014.

5. For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

NOTE 7. Pension Plan – Educational Retirement Board (continued)

The actuarial methods and assumptions used to determine contributions 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	Healthy males: RP-2000 Combined Mortality Table, set back one year, generational mortality improvements in accordance with scale BB from the table's base year of 2012

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.). These items are developed for each major asset class. ERB's investment allocation policy was reviewed and amended by the Board of Trustees on August 26, 2016. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following schedule shows the current asset allocation policy adopted on August 26, 2016 as well as the prior allocation policy targets.

NOTE 7. Pension Plan – Educational Retirement Board (continued)

Comparative Schedule of Target Investment Allocation

	Target Allocation	
Asset Class	**After 8/26/2016**	**Prior to 8/26/2016**
Equities		
Domestic Equities		
Large cap equities	16%	18%
Small- mid cap equities	3%	2%
Total domestic	19%	20%
International Equities		
Developed	5%	5%
Emerging markets	9%	10%
Total international	14%	15%
Total equities	33%	35%
Fixed Income		
Opportunistic credit	18%	20%
Core bonds	6%	6%
Emerging market debt	2%	2%
Total fixed income	26%	28%
Alternatives		
Real estate - REITS	7%	7%
Real assets	8%	8%
Private equity	13%	11%
Global asset allocation	4%	5%
Risk parity	3%	5%
Other	5%	0%
Total alternatives	40%	36%
Cash	1%	1%
Total	100%	100%

For the years ended June 30, 2016 and 2015, the annual money-weighted rates of return on pension plan investments were for each asset class above 2.68% and 4.06%, respectively.

NOTE 7. Pension Plan – Educational Retirement Board (continued)

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016 and June 30, 2015. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

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 2016. In particular, the table presents the (employer'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.

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Proportionate share of the net pension liability	$ 20,595,685	$ 15,550,054	$ 11,363,605

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2016, which is publicly available at www.nmerb.org.

NOTE 8. Group Insurance

The College participates in the State of New Mexico Public Schools Insurance Authority group health insurance plan. The Authority's two primary insurance underwriters are Blue Cross/Blue Shield of New Mexico and Presbyterian. The plan covers all full-time employees of the College who choose to participate in the plan. The College pays premiums under the plan and employees contribute based on percentage splits established by 10-7-4 NMSA 1978 for public employees.

NOTE 9. Risk Management

The College currently is party to various litigation and other claims in the ordinary course of business. The College has property, liability, and workers compensation insurance coverage with New Mexico Public Schools Insurance Company. The College believes that the outcome of all pending and threatened litigation will not have a material adverse effect on the financial position or operations of the College. Federal grants received by the College are subject to audit by the grantors. In the event of noncompliance with funding requirements, grants may be required to be refunded to the grantor. College management estimates that such refunds, if any, will not be significant.

NOTE 10. Commitments and Contingencies

The College is liable or contingently liable in connection with certain claims, which arise in the normal course of business. It is the opinion of College management that uninsured losses resulting from these claims would not be material to the College's financial position. Federal grants received by the College are subject to audit by the grantors. In the event of noncompliance with funding requirements, grants may be required to be refunded to the grantor. College management estimates that such refunds, if any, will not be significant.

There were no commitments or obligations outstanding as of June 30, 2017.

NOTE 11. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosure of certain information concerning individual funds including:

A. Deficit equity

The College does not maintain a deficit equity position.

B. Excess of expenditures over appropriations.

The College is not aware of any expenses in excess of budgetary authority

C. Designated cash appropriation in excess of available balances.

The College is not aware of any designated cash appropriations in excess of available balances.

NOTE 12. Subsequent Events

The date to which events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosures is November 1, 2017. No other events occurring after June 30, 2017 necessitate adjustment to the financial statements or disclosure in the notes.

NOTE 13. Subsequent Pronouncements

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. This pronouncement will materially affect the College.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The College is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The College is still evaluating how this pronouncement will affect the financial statements.

NOTE 13. Subsequent Pronouncements (continued)

In January 2017, GASB Statement No. 84, *Fiduciary Activities,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The College is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85, *Omnibus 2017,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The College is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to in-substance defeasance of debt using only existing resources. The College has no debt but if they take debt out in the future this could apply.

In June 2017, GASB Statement No. 87, *Leases,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The College is still evaluating how this pronouncement will affect the financial statements.

NOTE 14. Concentrations

The College depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the College is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
Luna Community College
Schedule of the College's Proportionate Share of the Net Pension Liability
Educational Retirement Board (ERB) Plan
Last 10 Fiscal Years*

	2017 Measurement Date (As of and for the Year Ended June 30, 2016)	**2016 Measurement Date (As of and for the Year Ended June 30, 2015)**	**2015 Measurement Date (As of and for the Year Ended June 30, 2014)**
Proportion of the net pension liability (asset)	0.21608%	0.21326%	0.21465%
Proportionate share of the net pension liability (asset)	$ 15,550,054	$ 13,813,418	$ 12,247,342
Covered employee payroll	5,882,681	5,916,574	5,597,338
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	264.34%	233.47%	218.81%
Plan fiduciary net position as a percentage of the total pension liability	61.58%	63.97%	66.54%

* The amounts presented were determined as of June 30th. This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten 10-year trend is compiled, the College will present information for those years for which information is available.

See independent auditors' report.
See notes to required supplementary information.

STATE OF NEW MEXICO
Luna Community College
Schedule of the College's Contributions
Educational Retirement Board (ERB) Plan
Last 10 Fiscal Years*

	As of and for the Year Ended June 30, 2017	As of and for the Year Ended June 30, 2016	As of and for the Year Ended June 30, 2015
Contractually required contribution	$ 771,543	$ 842,639	$ 778,030
Contributions in relation to the contractually required contribution	771,543	842,639	778,030
Contribution deficiency (excess)		-	-
Covered employee payroll	5,550,668	5,882,681	5,916,574
Contributions as a percentage of covered employee payroll	13.90%	14.32%	13.15%

* This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (10) year trend is compiled, the College will present information for those years for which information is available.

See independent auditors' report.
See notes to required supplementary information.

Changes of Benefit Terms

The COLA and retirement eligibility benefits changes in recent years are described in *Benefits Provided* subsection of the financial statement note disclosure *General Information on the Pension Plan*.

Changes of Assumptions

The Board of Trustees approved the following economic and demographic assumptions used in the fiscal year 2015 actuarial calculation of the total pension liability on June 12, 2015:

1) Lower wage inflation from 4.25% to 3.75%

2) Update the mortality tables to incorporate generational improvements

3) Update demographic assumptions to use currently published tables, which may result in minor calculation changes

4) Maintain in current 3.00% inflation assumption

5) Retain net 4.75% real return assumption

6) Retain 7.75% nominal return assumption

7) No change to COLA assumption of 2.00% per year

8) Maintain current payroll growth assumption of 3.50%

9) Maintain experience-based rates for members who joined NMERB by June 30, 2010

10) Remove population growth assumption for projections

11) Lower population growth from .50% to zero (no impact on valuation results)

Also see the *Actuarial Assumptions* subsection of the financial statement note disclosure *General Information on the Pension Plan*. Assumption changes increased the Education Retirement Board's total pension liability by $299,084,856 for fiscal year ending June 30, 2015 as a result of the changes of assumptions described above.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO

Statement A-1

Luna Community College
Unrestricted and Restricted - All Operations
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Non-GAAP Basis)	Variance Favorable (Unfavorable) Final to Actual
Beginning fund balance	$ 2,602,576	$ 4,390,119	$ 4,390,119	$ -
Unrestricted and restricted revenues:				
State general fund appropriations	8,490,201	8,065,691	8,065,700	9
Federal revenue sources	5,937,678	6,339,674	2,657,861	(3,681,813)
Tuition and fees	974,509	974,509	988,383	13,874
Private gifts, grants, and contracts	4,004,490	7,762,337	1,605,230	(6,157,107)
Other	2,323,462	2,299,015	2,561,475	262,460
Total unrestricted and restricted revenues	21,730,340	25,441,226	15,878,649	(9,562,577)
Unrestricted and restricted expenditures:				
Instruction	4,741,976	4,848,278	4,074,035	774,243
Academic support	1,208,019	1,537,569	1,179,748	357,821
Student services	1,968,579	2,067,995	1,554,909	513,086
Institutional support	2,303,482	2,358,340	2,013,446	344,894
Operation and maintenance of plant	2,166,591	2,004,343	1,945,421	58,922
Subtotal instruction and general	12,388,647	12,816,525	10,767,559	2,048,966
Student social and cultural activities	23,645	23,645	20,464	3,181
Public service	435,777	548,346	400,892	147,454
Student aid	6,633,025	6,623,795	2,071,996	4,551,799
Auxiliary enterprises	733,711	659,297	545,570	113,727
Intercollegiate athletics	602,653	582,353	490,473	91,880
Capital outlay	2,200,000	4,872,951	1,073,843	3,799,108
Renewal and replacements	269,884	442,152	249,959	192,193
Total unrestricted and restricted expenditures	23,287,342	26,569,064	15,620,756	10,948,308
Net transfers	-	-	-	-
Change in fund balance (budgetary basis)	(1,557,002)	(1,127,838)	257,893	1,385,731
Ending fund balance	$ 1,045,574	$ 3,262,281	$ 4,648,012	$ 1,385,731

Reconciliation of Change in Fund Balance (Budgetary Basis) to Change in Net Position (GAAP Basis)

Change in fund balance (budgetary basis)	$ 257,893
Adjustments:	
Depreciation expense	(1,109,616)
Increase in capital assets	1,427,958
Increase in deferred outflows	877,252
Increase in compensated absences	(15,323)
Decrease in deferred inflows	197,515
Increase in net pension liability	(1,736,636)
Net in other accounts	(303,156)
Financial statements change in net position reconciled to budgetary basis	$ (404,113)

See independent auditors' report.

STATE OF NEW MEXICO Statement A-2

Luna Community College

Unrestricted - Instruction and General

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2017

	Budgeted Amounts		**Actual**	**Variance Favorable (Unfavorable)**
	Original	**Final**	**(Non-GAAP Basis)**	**Final to Actual**
Beginning fund balance, as restated	$ 2,259,305	$ 3,902,170	$ 3,902,170	$ -
Unrestricted revenues:				
Tuition and fees	950,864	950,864	948,555	(2,309)
State government appropriations	8,083,600	7,679,390	7,679,392	2
Local government appropriations	1,600,000	1,600,000	1,923,047	323,047
Federal grants and contracts	-	-	-	-
Other	17,000	17,000	40,541	23,541
Total unrestricted revenues	10,651,464	10,247,254	10,591,535	344,281
Unrestricted expenditures:				
Instruction	4,574,061	4,551,848	3,805,313	746,535
Academic support	558,022	593,761	540,637	53,124
Student services	1,968,578	2,067,995	1,553,458	514,537
Institutional support	2,303,482	2,358,340	2,013,443	344,897
Operation and maintenance of plant	2,166,591	2,004,343	1,935,544	68,799
Total unrestricted expenditures	11,570,734	11,576,287	9,848,395	1,727,892
Net transfers	(637,731)	(583,432)	(477,754)	105,678
Change in fund balance (budgetary basis)	(1,557,001)	(1,912,465)	265,386	2,177,851
Ending fund balance	$ 702,304	$ 1,989,705	$ 4,167,556	$ 2,177,851

See independent auditors' report.

STATE OF NEW MEXICO
Luna Community College
Restricted - Instruction and General
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2017

Statement A-3

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	**Final**	**(Non-GAAP Basis)**	**Final to Actual**
Beginning fund balance	$ -	$ -	$ -	$ -
Restricted revenues:				
Tuition and fees	-	22,254	18,646	(3,608)
Federal government contracts/grants	722,602	1,125,427	777,812	(347,615)
State government contracts/grants	95,310	86,842	81,231	(5,611)
Gifts, grants and contracts - private	-	5,715	5,608	(107)
Total restricted revenues	817,912	1,240,238	883,297	(356,941)
Restricted expenditures:				
Instruction	167,915	296,430	242,883	53,547
Academic support	649,997	943,808	639,117	304,691
Student services	-	-	1,297	(1,297)
Institutional support	-	-	-	-
Total restricted expenditures	817,912	1,240,238	883,297	356,941
Net transfers	-	-	-	-
Change in fund balance (budgetary basis)	-	-	-	-
Ending fund balance	$ -	$ -	$ -	$ -

See independent auditors' report.

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
Luna Community College
Schedule of Deposit and Investment Accounts
June 30, 2017

Account Name	Type	Southwest Capital Bank	Wells Fargo Bank	Total
Santa Rosa account	Checking	$ -	$ 18,357	$ 18,357
Springer account	Checking	-	9,540	9,540
General disbursement	Checking	4,509,120	-	4,509,120
Payroll account	Checking	366,965	-	366,965
Student Activity	Checking	61,401	-	61,401
				-
Amounts on deposit		4,937,486	27,897	4,965,383
Outstanding items		(431,827)	268	(431,559)
		$ 4,505,659	$ 28,165	4,533,824
			Petty cash	-
				4,533,824
			Reconciliation to the Financial Statements:	
			Cash and cash equivalents	4,533,824
			Total deposits and investments	$ 4,533,824

See independent auditors' report.

STATE OF NEW MEXICO
Luna Community College
Schedule of Collateral Pledged by Depository
June 30, 2017

Schedule IV

Depository	Description of Pledged Collateral	CUSIP	Fair Market Value June 30, 2017	Name and Location of Safekeeper
Southwest Capital Bank				
	FHLB due 1/25/2018	LOC 4305000001	$ 1,900,000	Federal Home Loan Bank Irving, TX
	FHLB due 1/25/2018	LOC 4305000001	400,000	Federal Home Loan Bank Irving, TX
Total Southwest Capital Bank			$ 2,300,000	

See independent auditors' report.

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COMPLIANCE SECTION

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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*

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
U.S. Office of Management and Budget and
Luna Community College Board
Luna Community College
Las Vegas, New Mexico

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, 2017, 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 1, 2017.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as CU 2016-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 2016-003, FS 2016-004, FS 2017-001, and CU 2016-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item FS 2016-003.

We noted certain matters that are required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of Section 12-6-5 NMSA 1978 Findings as items NM 2017-001 and CU 2017-001.

The College's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, NM
November 1, 2017

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FEDERAL FINANCIAL ASSISTANCE

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REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
U.S. Office of Management and Budget and
Luna Community College Board
Luna Community College
Las Vegas, New Mexico

Report on Compliance for the Major Federal Program

We have audited 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 the College's major federal program for the year ended June 30, 2017. The College's major federal program is identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on the 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 its major federal program for the year ended June 30, 2017.

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.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, NM
November 1, 2017

STATE OF NEW MEXICO
Luna Community College
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/Program Title		Pass through Number	Federal C.F.D.A. Number
US Department of Education			
Direct programs:			
Student financial assistance cluster: *			
Federal Pell Grant Program	(1)	15-16	84.063
Federal Pell Grant Program	(1)	16-17	84.063
Federal SEOG Program	(1)	16-17	84.007
Federal Work Study Program	(1)	15-16	84.033
Federal Work Study Program	(1)	16-17	84.033
Direct Loans Subsidized	(1)	15-16	84.268
Direct Loans Subsidized	(1)	16-17	84.268
Direct Loans Unsubsidized	(1)	15-16	84.268
Direct Loans Unsubsidized	(1)	16-17	84.268
Higher Education Institutional Aid - Title V		P031S120116 15-16	84.031S
Higher Education Institutional Aid - Title V		P031S120116 16-17	84.031S
Passed through New Mexico Highlands University:			
Higher Education Institutional Aid - Title V		P161468	84.031S
Passed through State of New Mexico			
Higher Education Department:			
Doctoral Dissertation Research Abroad		689888	84.022
Carl D. Perkins Allied Health		2016-2017	84.048A
Total US Department of Education			
US Small Business Administration			
Passed through New Mexico			
Small Business Development Center:			
Small Business Development Center		16-17	59.037
United States Treasury			
Americorps State and National		16-17	94.006
US Department of Health and Human Services			
Passed through University of New Mexico			
AHEC-POSME		3RF40 15-16	93.107
AHEC-POSME		3RF40 16-17	93.107
Total US Department of Health and Human Services			
National Science Foundation			
Passed through New Mexico Tech			
STEM Grant Transfer (STeP) 15-16		1161334 NMIMT#STEM10-710412	47.076
STEM Grant Transfer (STeP) 16-17		1161334 NMIMT#STEM10-710412	47.076
Passed through New Mexico State University			
NM Alliance for Minority Participation		HRD-1305011	47.076
Total National Science Foundation			
Total Expenditures of Federal Awards			

* Tested as major program
() Denotes cluster

See independent auditors' report.
See notes to the schedule of expenditures of federal awards.

Expenditures	Funds Provided to Subrecipients	Noncash Assistance
$ 20,393	$ -	$ -
1,444,583	-	-
50,147	-	-
2,154	-	-
34,598	-	-
2,739	-	-
142,703	-	-
2,785	-	-
79,704	-	-
47,919	-	-
591,200	-	-
12,173	-	-
50,556	-	-
48,413	-	-
2,530,067	-	-
20,689	-	-
4,217	-	-
20,098	-	-
62,258	-	-
82,356	-	-
1,800	-	-
24,454	-	-
491	-	-
26,745	-	-
$ 2,664,074	$ -	$ -

See independent auditors' report.
See notes to the schedule of expenditures of federal awards.

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Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Luna Community College ("the College") and is presented on the accrual basis of accounting, which is the same basis as was used to prepare the financial statements. The information in this schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Loans

The College did not expend federal awards related to loan guarantees during the year. Federal Direct Loans advanced to students in fiscal year 2017 totaled $227,931.

10% de minimus Indirect Cost Rate

The College did not elect to use the allowed 10% indirect cost rate.

Federally Funded Insurance

The College has no federally funded insurance.

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:

Total federal awards expended per Schedule of Expenditures of Federal Awards	$ 2,664,074
Total expenses funded by other sources	13,086,369
Total expenses per statement of revenues, expenses, and changes in net position	$ 15,750,443

See independent auditors' report.

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STATE OF NEW MEXICO
Luna Community College
Schedule of Findings and Questioned Costs
June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

1.	Type of auditors' report issued	Adverse
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	Yes
	b. Significant deficiencies identified not considered to be material weaknesses?	Yes
	c. Noncompliance material to the financial statements?	Yes

Federal Awards:

1.	Type of auditors' report issued on compliance for major programs	Unmodified
2.	Internal control over major programs:	
	a. Material weaknesses identified?	None Noted
	b. Significant deficiencies identified not considered to be material weaknesses?	None Noted
3.	Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	None Noted
4.	Identification of major programs:	

CFDA Numbers	Federal Program
	Student Financial Assistance Cluster
84.063	Federal PELL Grant program
84.007	Federal SEOG program
84.033	Federal Work Study program
84.268	Federal Direct Loans

5.	Dollar threshold used to distinguish between type A and type B programs:	$750,000
6.	Auditee qualified as low-risk auditee?	No

B. FINDINGS—FINANCIAL STATEMENT AUDIT

FS 2016-003 – Procurement (Repeated and Modified) – Significant Deficiency and Material Noncompliance

Condition: The following items were noted over procurement:

- Two invoices; one for $14,831 in tools and the other for uniforms at a cost of $14,214 were part of CES and GSA contracts, however, due diligence was not documented in the procurement files in order to determine that proper use of these CES and GSA contracts was in place. In the prior year corrective action plan, the College noted that three quotes would be obtained when required and if quotes cannot be obtained, the agency shall document the reasons and include the document in the procurement file. This type of documentation was missing from the procurement files in these two cases and therefore the action plan is not consistently followed.
- In another circumstance the College paid for media consulting services and travel expense totaling $28,000 before these services were received and provided to the College.

Criteria: According to the College's own Finance and Administration Policy, three written quotes must be obtained for all purchases between $1,500 and $20,000. For the payment of services prior to receipt of the services (prepaid services), according to Section 13-1-158 NMSA 1978, no warrant, check, or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications.

Effect: The College is not in compliance with their own procurement policy nor with statute Section 13-1-158 NMSA 1978.

Cause: The College has a policy on procurement that is not consistently followed. In regards to the payment for prepaid services, controls were circumvented by College management.

Auditors' Recommendation: A strong control environment is important to ensuring that all procedures and policies, including New Mexico statutes, are consistently followed. The College should exercise due diligence and follow their internal policies in order to ensure compliance with internal and state procurement codes, and these policies are to be adhered to by personnel at all levels of the College's organizational structure.

Views of Responsible Officials and Planned Corrective Actions:

Two invoices - The College has policies and procedures in place for obtaining quotes and well trained and knowledgeable staff in our Certified Procurement Officer and Fiscal Office staff. In reference to the two noted purchases, our CPO documented the price agreement numbers on both purchase orders, however, she did not keep copies of the agreements on file. The College will ensure the copies of all agreements are attached to the accounts payable files or available in the procurement files.

Pre-payment - A senior administrator at the College issued unilateral directives that circumvented the College's procurement policies. These directives yielded Board of Trustees approval on a contract that didn't warrant their approval. This approval took place prior to the vendor receiving a sole-source designation. And finally, the contract included a pre-payment clause for services that did not meet the exceptions for pre-payment.

The incident was isolated and the administrator is no longer with the College. Financial policies clearly articulate the processes and procedures that shall prevent similar incidents from occurring in the future. Finance staff have received adequate training on the policies and are aware that administrative exceptions are unallowable.

B. FINDINGS—FINANCIAL STATEMENT AUDIT (CONTINUED)

FS 2016-004 – Fixed Asset Inventory (Repeated and Modified) – Significant Deficiency

Condition: The College did not complete a fixed asset inventory count during the fiscal year, and during observation tests it was noted that items with acquisition costs totaling $247,104 were improperly tagged or had serial numbers that could not be located in the College's asset listing. In the prior year corrective action plan, the College noted that a third party would be contracted to establish a base for the fixed asset inventory and a written plan with timelines and procedures would be established. Though a third party was contracted to conduct an inventory, the recommendations by the vendor were not implemented and inventory procedures were not established by year end.

Criteria: Per NMAC 2.2.2.10 W(2) agencies shall conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year in accordance with the requirements of 12-6-10 NMSA 1978 and the agency shall certify the correctness of the inventory after the physical inventory.

Effect: The College is not in compliance with NMAC 2.2.2.10 W(2).

Cause: The College is aware of this requirement and worked with a third party vendor during the fiscal year to update their fixed asset listing. However, recommendations by this vendor were not yet implemented and the College's fixed asset system was not reconciled in order for the certification of the physical inventory to take place.

Auditors' Recommendation: The College should conduct a complete fixed asset inventory count, remove all obsolete and missing fixed assets from their listing, and have the count certified by the Board of Trustees. The recommendations of the third party vendor should be considered and Department Heads should participate in the inventory count in order to ease the process.

Views of Responsible Officials and Planned Corrective Actions:

The college concurs with the auditor's recommendation and is nearing completion of an extensive reconciliation project described herein.

The comprehensive fixed asset inventory count and reconciliation project has been ongoing since January 2016. As part of the effort, the college engaged a third party consultant to conduct a college-wide physical inventory, however, the results of that service highlighted many inconsistencies in years of data entry into the Jenzabar system that have required extensive manual line by line analysis of thousands of lines of data. In addition to the third party vendor, it's estimated more than 1500 hours have been dedicated to-date in this effort to include two additional staff members dedicated to the project. The college has engaged all department heads in this reconciliation process; the most recent follow-up meeting took place on October 13, 2017.

Once the project is complete, a detailed listing of reconciling items will be sent to the President and subsequently to the Board of Trustees for approval. Upon complying with the required notifications, updates and or corrections will be made to reconcile the Jenzabar inventory system to the physical inventory. The college will also implement a process to verify that proposed changes to the fixed asset records are approved by an independent staff prior to the change. The college estimates the project is 75% complete.

B. FINDINGS—FINANCIAL STATEMENT AUDIT (CONTINUED)

FS 2017-001 – Internal Controls over Bank Reconciliations – Significant Deficiency

Condition: The bank account reconciliation for the operating cash account was not prepared and reviewed in a timely manner. The College did not complete the June 30, 2017 bank reconciliation until September 14, 2017 and review was conducted after the reconciliation was provided to auditors.

Criteria: The COSO 2013 Internal Control Integrated Framework provides guidelines for designing and implementing a system of internal controls that incorporates five necessary components of internal controls. These five components consist of the control environment, risk assessment, control activities, information and communication, and monitoring. Bank reconciliations are considered a control activity that mitigates risk by detecting missing or duplicate transactions and monitoring the College's activities. In addition, timely bank reconciliations provide a way for management to monitor the operations of the College on a monthly basis.

Effect: If bank reconciliations are not prepared on a timely basis, the College cannot be sure of their current cash position and whether cash on deposit is sufficient to meet their current needs.

Cause: The College's current software package does not perform bank reconciliations and therefore the Finance Department must reconcile each bank account manually. Adjusting journal entries performed after the fiscal year end affected the cash balances and the manual reconciliation was not performed in time.

Auditors' Recommendation: The College should perform bank reconciliations on a monthly basis by ensuring all transactions on the general ledger and the bank statement are accounted for in each reconciliation. All reconciling items must be supported by adequate documentation and maintained in each monthly file. In addition, we recommend all bank reconciliation be reviewed timely by a member of management and this review be documented in the form of initialing each reconciliation, and that this process be added to the College's Finance and Administration Policy.

Views of Responsible Officials and Planned Corrective Actions:

Bank Reconciliation was completed in July. We do not process due to/from till after all entries and transfers for yearend are done. There are too many entries to the G/L at end of year and due to/from is done last. Therefore due to/from was off, causing cash to be off. At that time back tracking had to be done to find problem with balances. Did not find the problem with mandatory transfers till after September 14, 2017.

We are working on having Bank reconciliation fixed and update to CX system. This will be a more efficient and timely process for cash management.

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

D. NEW MEXICO STATE AUDIT RULE SECTION 12-6-5, NMSA 1978 FINDINGS

NM 2017-001 – Under Collateralized Pledged Collateral – Other noncompliance

Condition: The College's pledged collateral is $43,743 under the required 50% collateral for uninsured public funds.

Criteria: According to Section 6-10-17 NMSA 1978, the pledged collateral for deposits in banks, savings and loan associations, or credit unions in an aggregate amount must be equal to one half of the amount of public money in each account.

Effect: Public monies that are uninsured and uncollateralized have an increased custodial credit risk that the College's deposits may not be returned in the event of a bank failure.

Cause: The amount of College's pledged collateral is $2,300,000. Bank balances were not monitored and therefore the bank balance as of June 30, 2017 required a collateral balance of a minimum $2,343,743.

Auditors' Recommendation: During monthly reconciliation processes, the College should ensure that the bank balance is sufficiently collateralized each month. The College should also immediately work with its bank(s) to clarify the required collateral requirements. This process should be added to the College's Finance and Administration Policy.

Views of Responsible Officials and Planned Corrective Actions:

This was a 1.01% of the insured pledged collateral that only happened in June of this year. This has not been an issue in the past.

Because this was an oversight, for future reference we will have a formula in our manual process to insure the bank is keeping up with our monthly balance pledged collateral. We will also communicate with the bank to safe guard our pledged collateral so it does not go under cash value.

E. FINDINGS – COMPONENT UNIT

CU 2016-001 – Internal Controls over Financial Reporting and Closing (Repeated and Modified) – Material Weakness

Condition: The Foundation's Board of Directors did not provide any financial data of the Foundation for the 2017 fiscal year to the auditors, including a trial balance, bank statements, bank reconciliations, and other supporting documents. In the prior year corrective action plan it was noted that the Foundation's accountant/CPA reconciled all accounts in Quickbooks as of October and would reconcile all accounts from then on. Without financial data, the auditors are unable to determine if this plan took place.

Criteria: The COSO 2013 Internal Control Integrated Framework provides guidelines for designing and implementing a system of internal controls that incorporates five necessary components of internal controls. These five components consist of the control environment, risk assessment, control activities, information and communication, and monitoring. Good accounting practices require the Foundation to implement and follow sound accounting and internal control policies and procedures. The lack of records available for management review, audit and reporting results in an inability to determine where and how Foundation funds are utilized.

Effect: The Foundation is not adhering to proper accounting procedures to ensure that reliable financial records can be utilized for reporting and decision making. Without adequate records, the entity cannot effectively control fiscal operations through standard budgetary and fiscal reporting processes. In addition, not maintaining adequate records also increases an entity's risk of being subject to fraud.

Cause: The Foundation did not design or implement a system of internal controls to maintain the integrity and reporting of their financial data and did not require that adequate records be maintained.

Auditors' Recommendation: The Foundation has contracted with an accountant to reconcile and maintain all financial records. All supporting financial documents including bank statements, investment statements, and financial software should be made available to the accountant. The Foundation Board should also establish policies and procedures over their financial reporting and closing process and ensure these policies are followed, even when there is a change in Foundation management.

Views of Responsible Officials and Planned Corrective Actions:

The College is unable to locate a formal agreement that binds the institution to the LCC Foundation. Therefore, the College remains uncertain about its role as is relates to financial and organizational oversight for the Foundation's activity. Currently, Foundation bylaws do not provide the College's administration with avenues for regulating fundraising efforts, overseeing financial management practices or obtaining access to financial records. As a result of this finding, the College President is prepared to suspend all Foundation-related actions until a formal agreement is executed between the College and Foundation. The MOU shall articulate the following:

- An explicit purpose of the Foundation
- Policies that ensure the Foundation's compliance with local, state and federal laws that govern non-profit organizations
- Shared responsibilities for the Foundation's financial management
- Shared access to the Foundations financial records
- Shared responsibilities in establishing an annual operation budget for the Foundation
- Sound policies that govern the acceptance and management of gifts
- Sound policies that ensure adequate oversight for the Foundation's expenditures
- Sound policies that govern the scholarship application and award processes

The College President shall inform existing Board members of the suspension before the end of the calendar year. Each will be invited to participate in the process for drafting the terms and conditions of the MOU.

E. FINDINGS – COMPONENT UNIT (CONTINUED)

CU 2016-002 – Scholarships (Repeated and Modified) – Significant Deficiency

Condition: In the prior year four students received more than the maximum allowed scholarship of $500. As the Foundation Board of Directors did not provide any financial data of the Foundation for the 2017 fiscal year, the auditors could not determine if this finding was resolved for the 2017 fiscal year. In the prior year corrective action plan, it was noted that scholarship criteria does not take certificate programs into account and the Foundation Board would review the current scholarship policy and change where necessary. The auditors received no financial data or supporting documentation for the 2017 fiscal year and therefore could not determine if these changes were made.

Criteria: Per the Foundation Scholarship Application instructions, a student must have a minimum GPA of 2.0 and must be enrolled in a minimum of six credit hours at the College in order to be eligible for aid. 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: No financial data or any supporting documentation for the 2017 fiscal year was provided to auditors, and therefore it could not be verified if this finding was resolved.

Auditors' Recommendation: All supporting Foundation financial documents, including bank statements, investment statements, detailed transaction listings, and financial software should be made available to their accountant for reconciliation. The Foundation Board should also establish policies and procedures over their operations, including scholarships, and ensure these policies are followed, even when there is a change in Foundation management.

Views of Responsible Officials and Planned Corrective Actions:

The College is unable to locate a formal agreement that binds the institution to the LCC Foundation. Therefore, the College remains uncertain about its role as is relates to financial and organizational oversight for the Foundation's activity. Currently, Foundation bylaws are limiting in so far that they provide the College President, or Board, avenues for regulating fundraising efforts, overseeing financial management practices or obtaining access to financial records. As a result of this finding, the College President is prepared to suspend all Foundation-related actions until a formal agreement is executed between the College and Foundation. The MOU shall articulate the following:

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E. FINDINGS – COMPONENT UNIT (CONTINUED)

CU 2017-001 – Annual Corporate Report Not Submitted Timely – Other noncompliance

Condition: The Foundation has not filed their annual corporate report to the commission (Secretary of State) of New Mexico for their 2016 fiscal year.

Criteria: According to the Nonprofit Corporation Act (Chapter 53, Article 8 NMSA 1978), each domestic and foreign nonprofit corporation authorized to conduct affairs in New Mexico shall deliver an annual report to the New Mexico Secretary of State on or before the fifteenth day of the fifth month following the end of its taxable year.

Effect: Failure or refusal to file this annual report can result in a penalty and a revocation of certificate of authority to conduct affairs within the state of New Mexico. According to the Secretary of State's website, the Foundation's current status is "not in good standing".

Cause: Due to lack of oversight by Foundation Board over Foundation affairs, this requirement has not been met.

Auditors' Recommendation: In order to maintain status as a nonprofit corporation within the State of New Mexico, the 2016 corporate report must be submitted to the State and all fees and penalties must be paid.

Views of Responsible Officials and Planned Corrective Actions:

The College is unable to locate a formal agreement that binds the institution to the LCC Foundation. Therefore, the College remains uncertain about its role as is relates to financial and organizational oversight for the Foundation's activity. Currently, Foundation bylaws are limiting in so far that they provide the College President, or Board, avenues for regulating fundraising efforts, overseeing financial management practices or obtaining access to financial records. As a result of this finding, the College President is prepared to suspend all Foundation-related actions until a formal agreement is executed between the College and Foundation. The MOU shall articulate the following:

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The College President shall inform existing Board members of the suspension before the end of the calendar year. Each will be invited to participate in the process for drafting the terms and conditions of the MOU.

F. PRIOR YEAR FINDINGS

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

FS 2016-006: Lack of Supporting Documentation (Other Matters) - Resolved

NM 2016-001: Hiring Process (Other Matters) – Resolved

NM 2016-002: Presidential Search (Other Matters) – Resolved

NM 2016-003: Procurement (Other Matters) – Repeated and Modified

NM 2016-004: Fixed Asset Inventory (Other Matters) – Repeated and Modified

CU 2016-001: Financial Report and Close (Material Weakness) – Repeated and Modified

CU 2016-002: Scholarships (Other Matters) – Repeated and Modified

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STATE OF NEW MEXICO
Luna Community College
Other Disclosures
June 30, 2017

FINANCIAL STATEMENT PREPARATION

The financial statements were prepared from the original books and records and with the assistance of the management of Luna Community College as of June 30, 2017 by RPC CPAs + Consultants, LLP. The responsibility for these financial statements remains with the College.

EXIT CONFERENCE

The contents of this report and its schedules were discussed on October 31, 2017. The following persons were in attendance:

Board of Trustees

Dan Romero, Board Chairman
Abelino Montoya, Board Member
Seferino Sisneros, Board Member (on phone)

College Officials

Ricky Serna, Interim President*
Donna Flores-Medina, Vice-President of Finance and Administration*
Evelyn Montoya, Executive Office Manager, Finance and Administration
Francina Martinez, Controller
Carolyn Chavez, Human Resources Director
Michael Montoya, Financial Aid Director

* Ex-Officio Board Member for Luna Community College Foundation

RPC CPAs + Consultants, LLP

Alan D. Bowers, Jr., CPA – Partner
Benjamin A. Martinez, CPA - Manager