
**Education Trust Board of New Mexico
Administrative Fund**

*Financial Statements
and
Independent Auditors' Report
June 30, 2011*

REDW^{LLC}
CPAs | Business & Financial Advisors

Education Trust Board of New Mexico

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**Education Trust Board of New Mexico
Administrative Fund**

**Official Roster
June 30, 2011**

Board of Directors

Dr. Jose Garcia, PhD	<i>Cabinet Secretary, New Mexico Higher Education Department</i>
Robert Watson	<i>Chair Designate, Education Trust Board</i>
Robert J. Desiderio, J.D.	<i>Vice Chair, Education Trust Board</i>
Matt Ellis	<i>Student Member, Education Trust Board</i>
Robbie Heyman, Esq.	<i>Member, Education Trust Board</i>
Ross Burkstaller	<i>VP, Program Administrator, OppenheimerFunds, Inc.</i>

Independent Auditors' Report

The Board of Directors
The Education Trust Board of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the general fund of the Administrative Fund (the "Fund") of the Education Trust Board of New Mexico (the "NMETB"), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the NMETB's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NMETB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the NMETB are intended to present the financial position and changes in financial position of only that portion of the NMETB and the State of New Mexico that are attributable to the transactions of the Fund. They do not purport to and do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, and the changes in financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, of the administrative fund of the NMETB, as of June 30, 2011, and the respective changes in financial position and the budgetary comparison thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the Funds' 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Fund. The accompanying Schedule of Individual Deposit Accounts is supplemental information presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REDW LLC

Phoenix, Arizona
September 27, 2012

Education Trust Board of New Mexico
Administrative Fund
Management's Discussion and Analysis
June 30, 2011

The following discussion and analysis provides an overview of the financial position and activities of the Administrative Fund (the "Fund") of the Education Trust Board of New Mexico (the "NMETB") as of and for the year ended June 30, 2011. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis.

Financial Highlights

The Fund's total revenues increased approximately \$282,000 and expenses decreased approximately \$117,000 during the year ended June 30, 2011, compared with the previous year. Fund balance increased from \$5.5 million at June 30, 2010 to \$6.7 million at June 30, 2011.

Overview of the Financial Statements

This financial report is comprised of four components: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) notes to the financial statements, and 4) supplementary schedule of individual deposit accounts.

Fund financial statements include the governmental fund financial statements that tell how government services were financed in the short-term as well as what remains for future spending. The financial statements are accompanied by notes that are essential to a full understanding of the financial information in this report.

Fund Financial Statements

As a governmental fund, the Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Fund's near-term financing requirements.

The statement of revenues, expenses, and changes in fund balance report the Fund's fund balance and how it has changed. The balance sheet reports assets, liabilities and fund balance, the difference between assets and liabilities. Changes in fund balance is one way to measure the Fund's financial health or position. Nonfinancial factors are also important to consider, including litigation and the vulnerability of the market in which the Fund's assets are held.

These statements include all assets and liabilities using the modified accrual basis of accounting, which is consistent with the accounting method used by state and local government entities, which measures cash and all other financial assets.

Education Trust Board of New Mexico
Administrative Fund
Management's Discussion and Analysis
June 30, 2011

The following table summarizes the Fund's assets, liabilities, and fund balance as of June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Assets		
Cash and investments	\$ 7,125	\$ 5,684
Accounts receivables	<u>157</u>	<u>138</u>
Total assets	<u>\$ 7,282</u>	<u>\$ 5,822</u>
Liabilities		
Accounts payable	<u>\$ 545</u>	<u>\$ 352</u>
Total liabilities	<u>545</u>	<u>352</u>
Fund balance	<u>6,737</u>	<u>5,470</u>
Total liabilities and fund balance	<u>\$ 7,282</u>	<u>\$ 5,822</u>

As of June 30, 2011, total assets and fund balance increased due to the continuing receipt of the administration fee, as outlined in the Program Management Agreement. The deposit is made automatically each month based on the value of accounts managed in the Scholar's Edge and the Education Plan 529 savings plans, which are fiduciary funds of the NMETB.

The following table summarizes the Fund's revenues, expenses, and changes in fund balance for the year ended June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Total revenues	\$ 2,441	\$ 2,159
Total expenses	<u>1,174</u>	<u>1,291</u>
Excess of revenues over expenses	<u>1,267</u>	868
Fund balance, beginning of year	<u>5,470</u>	<u>4,602</u>
Fund balance, end of year	<u>\$ 6,737</u>	<u>\$ 5,470</u>

Total expenditures decreased by \$117 thousand or 9% to \$1.2 million for the year ended June 30, 2011, compared to \$1.3 million for the year ended June 30, 2010. The decrease was primarily due to decreases in legal fees related to ongoing litigation.

Education Trust Board of New Mexico
Administrative Fund
Management's Discussion and Analysis
June 30, 2011

Budget

NMETB adopts an annual budget for the administration and marketing of the college savings programs based upon the recommendation of program staff and the New Mexico Higher Education Department's Administrative Services Division. NMETB's budget is subject to the approval of the New Mexico Department of Finance and Administration (DFA) and the New Mexico Legislative Finance Committee (LFC). Expenditures may not legally exceed appropriations at the object expenditure classification (code) level. Amendments to the budget require DFA and LFC approval. All appropriations lapse at fiscal year-end, although cash balances at the end of the fiscal year do not revert back to the New Mexico State General Fund.

Revenues of \$2.4 million were \$2.4 million more than the budgeted revenues of \$0. The difference is due to the Fund's fee revenue being more than the corresponding budgeted amount. Expenditures of \$1.2 million were less than budgeted expenditures of \$2.2 million.

Economic Outlook

The Fund's economic outlook is closely related to the activities and status of the public investment markets. The Fund is dependent upon the automatic fee deposit that is made every month, as a percentage of the net assets that reside in the two 529 savings plans: the Scholar'sEdge and The Education Plan.

The Education Trust Board of New Mexico operates as a self-sustaining state entity and has no direct employees. The State of New Mexico does not appropriate any budgeted amounts for this fund, but the NMETB is administratively connected to the New Mexico Department of Higher Education (NMHED).

Contacting Management

This financial report is designed to provide a general overview of the Fund's finances. If you have questions about this report or need additional financial information, contact the NMETB's Executive Director at the following address:

Education Trust Board of New Mexico
2048 Galisteo
Santa Fe, NM 87505

Fund Financial Statements

Education Trust Board of New Mexico
Administrative Fund
Balance Sheet
June 30, 2011

Assets

Cash and cash equivalents	\$ 5,247,279
Interest in state general fund investment pool	1,877,922
Accounts receivables	<u>157,034</u>
Total assets	<u><u>\$ 7,282,235</u></u>

Liabilities and Fund Balance

Liabilities

Accounts payable	<u>\$ 545,052</u>
Total liabilities	545,052

Fund Balance

Unassigned	<u>6,737,183</u>
Total liabilities and fund balance	<u><u>\$ 7,282,235</u></u>

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

Education Trust Board of New Mexico
Administrative Fund
Statement of Revenues, Expenses, and Changes in Fund Balance
For the Year Ended June 30, 2011

Revenues

Fee revenue	\$ 1,938,996
Scholarship revenue	500,000
Dividends	<u>1,792</u>
Total revenues	<u>2,440,788</u>

Expenditures

Contractual services	528,068
Other costs	145,540
Scholarships	<u>500,000</u>
Total expenses	<u>1,173,608</u>
Excess of revenues over expenses	<u>1,267,180</u>
Net change in fund balance	1,267,180
Fund balance, beginning of year	<u>5,470,003</u>
Fund balance, end of year	<u><u>\$ 6,737,183</u></u>

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

Education Trust Board of New Mexico
Administrative Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Fee revenue	\$ -	\$ -	\$ 1,938,996	\$ 1,938,996
Dividends	-	-	1,792	1,792
Total revenues	-	-	1,940,788	1,940,788
Expenditures				
<i>Administration of educational savings plan</i>				
Personnel services and employee benefits	115,000	115,000	-	115,000
Contractual services	1,325,000	1,325,000	528,068	796,932
Other costs	306,000	306,000	145,540	160,460
Other financing uses	500,000	500,000	500,000	-
Total expenditures	2,246,000	2,246,000	1,173,608	1,072,392
Other Financing Sources				
Other financing sources	2,246,000	2,246,000	500,000	(1,746,000)
Net change in fund balance	\$ -	\$ -	\$ 1,267,180	\$ 1,267,180

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

Education Trust Board of New Mexico

Administrative Fund

Notes to Financial Statements

June 30, 2011

1) Summary of Significant Accounting Policies

Reporting Entity

The Education Trust Board of New Mexico (the “NMETB”) is the governing body for New Mexico’s 529 college savings plans and the Administrative Fund (the “Fund”). The Board is administratively attached to the New Mexico Higher Education Department (NMHED). Members are appointed by the Governor, Senate Pro Tem, and Speaker of the House of Representatives. The NMETB is responsible for making rules and regulations for the development and implementation of the Education Trust Act. The Fund is considered a special revenue fund of the State of New Mexico. The 529 college savings plans are considered fiduciary funds of the State of New Mexico. A separate audit report for the 529 college savings plans can be obtained from the Education Trust Board of New Mexico.

The Fund is a governmental fund, which is used to account for the administrative operations of the NMETB. The Fund’s financial statements include the financial position, changes in financial position, and budgetary comparison of the Fund only and are not intended to present the financial position, changes in financial position and budgetary comparison of the NMETB or of the State of New Mexico.

Measurement Focus, Basis of Accounting, and Basis of Presentation

Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues reported in governmental funds are considered to be available if collected within ninety days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

Dividends are recognized as they are earned and become measurable and available to pay liabilities of the current period.

Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities of three months or less. The Fund’s cash and cash equivalents consist of money market accounts maintained at Oppenheimer, the program manager and cash held at the New Mexico State Treasurer’s Office invested in the State General Fund Investment Pool.

Education Trust Board of New Mexico

Administrative Fund

Notes to Financial Statements

June 30, 2011

Use of Estimates

The preparation of the financial statements, in accordance with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Budget

NMETB adopts an annual budget for the administration and marketing of the college savings programs based upon the recommendation of program staff and the New Mexico Higher Education Department's Administrative Services Division. NMETB's budget is subject to the approval of the New Mexico Department of Finance and Administration (DFA) and the New Mexico Legislative Finance Committee (LFC). Expenditures may not legally exceed appropriations at the object expenditure classification (code) level. Amendments to the budget require DFA and LFC approval. All appropriations lapse at fiscal year-end, although cash balances at the end of the fiscal year do not revert back to the New Mexico State General Fund.

2) Cash and Cash Equivalents

Amounts allotted to the Fund by the State of New Mexico are held by the New Mexico State Treasurer's Office in a pooled account. The balance held at the New Mexico State Treasurer was \$1,877,922 at June 30, 2011. Funds can be withdrawn from the New Mexico State Treasurer as needed and they are, therefore, considered to be cash equivalents. All earnings on deposits are retained by the New Mexico State General Fund; therefore, from the Fund's perspective, the balances are noninterest-bearing and stated at cost. The New Mexico State Treasurer pool deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 insurance coverage provided by federal agencies. Accordingly, the New Mexico State Treasurer requires the depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral is required in amounts equal to 50% of the average investment balance. To obtain pledged collateral, investment risk, custodial credit risk, and insurance coverage information for the Funds investment in the New Mexico State Treasurer's state general fund investment pool, a copy of separately issued financial statements of December 31, 2011, can be obtained from the New Mexico State Treasurer's Office. All collateral is held in third-party safekeeping.

Education Trust Board of New Mexico

Administrative Fund

Notes to Financial Statements

June 30, 2011

Cash and cash equivalents at June 30, 2011, are held in a money market fund in the amount of \$ 5,247,279 in the name of the Fund and is reported at fair value. The money market fund is invested in short-term, high quality, dollar dominated debt instruments issued by the U.S. government, domestic and foreign corporations and financial institutions and other entities.

3) Accounts Receivable

Accounts receivable reflected in the Fund financial statements represent the administrative fee revenues earned in June but collected in July.

4) Fee Revenues

During fiscal year 2011, the Fund received revenue from the program managers to pay its expenses. The agreement in place for fiscal year 2008 through fiscal year 2011 provided between 5 and 10 basis points from Oppenheimer Funds based on assets under management.

5) Contingencies

The NMETB, as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the New Mexico General Services Department. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

- ◆ Liability and civil rights protection for claims made by others against the State of New Mexico;
- ◆ Coverage to protect the state of New Mexico's property and assets; and
- ◆ Fringe benefit coverage for the state of New Mexico employees.

At June 30, 2011 the NMETB is named as defendant in three pending legal matters. It is management's opinion that it has no exposure to liability or loss under these complaints. Subsequent to June 30, 2011, two of the matters were dismissed and, the NMETB has claimed immunity on the remaining matter, and management believes judgment in favor of the plaintiff is remote.

Education Trust Board of New Mexico

Administrative Fund

Notes to Financial Statements

June 30, 2011

6) Subsequent Events

Subsequent events through September 27, 2012, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2011, financial statements.

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2011, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of The Education Trust Board of New Mexico balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. Management believes that these changes will allow for the completion of a timely and accurate reconciliation on a *point-forward basis only*. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

Education Trust Board of New Mexico
Administrative Fund
Notes to Financial Statements
June 30, 2011

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2011, the Department had the following invested in the General Fund Investment Pool:

General Fund Investment Pool — \$1,877,922.

Interest Rate Risk – The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk – The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2011.

Supplementary Information

Education Trust Board of New Mexico
Administrative Fund
Schedule of Individual Deposit Accounts
For the Year Ended June 30, 2011

Name of Institution	Account Name	Share Fund No.	Deposit Type	Bank Balance at June 30, 2011	Reconciled Balance at June 30, 2011
NM State Treasurer's Office	Education Trust Board of New Mexico — Administration Fund	11250	Interest in SGFIP	\$ 1,877,922	\$ 1,877,922
Oppenheimer Funds	Education Trust Board of New Mexico — Administration Fund	11250	Money Market	<u>5,247,279</u>	<u>5,247,279</u>
Total governmental fund types - general fund				<u>\$ 7,125,201</u>	<u>\$ 7,125,201</u>

**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***

The Board of Directors
Education Trust Board of New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the Administrative Fund of the Education Trust Board of New Mexico (the “NMETB”), as of and for the year ended June 30, 2011, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and response, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness and other deficiencies that we consider to be 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We do not consider the deficiencies described in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item FS 10-1, FS 10-2, FS 10-3, and FS 11-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 matters that required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, the New Mexico Legislature, and New Mexico Department of Finance and Administration, and is not intended to be and should not be used by anyone other than these specified parties.

REDW LLC

Phoenix, Arizona
September 27, 2012

Education Trust Board of New Mexico
Administrative Fund
Schedule of Findings and Responses
For the Year Ended June 30, 2011

Financial Statement Findings

2010-1 — Cash Basis Accounting

Condition: The Fund records revenues and expenses using the cash basis of accounting rather than the modified accrual basis of accounting, which is considered an Other Comprehensive Basis of Accounting (OCBOA), but is not consistent with U.S. Generally Accepted Accounting Principles (GAAP).

Criteria: Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, requires governmental funds to utilize the modified accrual basis of accounting.

Cause: Due to the lack of complexity of the Fund's financial activity, the Fund chose to maintain their records using cash basis of accounting.

Effect: The Fund's internal records are not prepared in accordance with GAAP.

Auditors' Recommendations: We recommend that the administrative fund convert their internal recordkeeping from the cash basis of accounting to the modified accrual basis of accounting.

Management's Response: In the future, the Education Trust Board fiscal year operating funds will be managed within the statewide SHARE financial system and will use modified accrual accounting procedures required by the system.

Education Trust Board of New Mexico
Administrative Fund
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2011

Financial Statement Findings

2010-2 — Internal Controls Over Fee Revenue

Condition: All revenue items are recognized and reported in the period in which cash is physically collected. There is no formal review of the fee revenues received to ensure they are complete and accurate in accordance with the Program Management Agreement between the Board and Oppenheimer Funds, Inc. (OFI).

Criteria: Internal controls over financial reporting are an integral component of an effective financial management system.

Cause: The Fund has relied on the accuracy of OFI's calculation and distribution of fee revenue in accordance with Program Management Agreement.

Effect: It is possible that fee revenue calculated and remitted by OFI is not in accordance with agreements between the Board and OFI and that revenue will be incorrectly reported by the Fund.

Auditors' Recommendations: We recommend that the Fund perform a monthly reconciliation of the fee revenues received from OFI to ensure the completeness and accuracy of the fee revenues in accordance with the effective agreements.

Management's Response: Upon accession to his/her position before the end of December 31, 2012, the NMETB's Executive Director will establish and implement fee revenue internal controls as specified.

Education Trust Board of New Mexico
Administrative Fund
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2011

Financial Statement Findings

2010-3 — Timely Reporting

Condition: The annual financial audit reporting package for the fiscal year ended June 30, 2011, was not submitted to the New Mexico Office of the State Auditor by the required due date of December 31, 2011. This was due to the audit contract not being awarded until October 3, 2011.

Criteria: According to Subsection A of 2.2.2.9 NMAC, state agency audit reports are due no later than 60 days after the Financial Control Division of the New Mexico Department of Finance and Administration provides the New Mexico Office of the State Auditor with notice that the agency's books and records are ready available for audit; however, the deadline cannot exceed beyond December 15.

Cause: The decision to require an audit of the Fund was not made until late 2011.

Effect: The Fund is not in compliance with the reporting deadlines established by the New Mexico Office of the State Auditor.

Auditors' Recommendations: We recommend that the audit contracting process be completed prior to the end of the fiscal year in order to allow sufficient time to complete the audit in accordance with the NMAC reporting deadlines.

Management's Response: Upon accession to his/her position before the end of December 2012, the NMETB Executive Director will establish and implement timely reporting of financial information as specified.

Education Trust Board of New Mexico
Administrative Fund
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2011

Financial Statement Findings

2011-1 — Lack of Approval for Per Diem, Control Deficiency

Condition: A per diem amount of \$397 was paid based on an Itemized Expense Schedule that was not approved by a supervisor.

Criteria: The State of New Mexico Manual of Model Accounting Practices (MAPs), section FIN 5 requires an Itemized Expense Schedule to obtain Agency approval prior to the issuance of a warrant.

Cause: Inefficiencies by management in reviewing travel reimbursements for conformity with the requirements of MAPs.

Effect: The Department is not in compliance with FIN 5 of MAPs.

Auditors' Recommendations: We recommend that management establish controls and procedures that require vouchers to be properly reviewed and approved.

Management's Response: Management will review this finding with agency staff to reassert the importance of obtaining written agency approval prior to the issuance of a warrant.

Education Trust Board of New Mexico
Administrative Fund
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

Fiscal Year 2010 Findings	Current Status
FS 10-1 – Cash Basis Accounting	Unresolved. See current year finding 2010-1.
FS 10-2 – Internal Controls over Fee Revenues	Unresolved. See current year finding 2010-2.
FS 10-3 – Timely Reporting	Unresolved. See current year finding 2010-3.

Education Trust Board of New Mexico
Administrative Fund
Exit Conference
For the Year Ended June 30, 2011

Exit Conference

An exit conference was conducted on September 27, 2012, in which the contents of this report were discussed with the following:

Education Trust Board of New Mexico

Dr. Jose Garcia	Board Chairman
Kevin Deiters	Executive Director
Ross Burkstaller	Program Manager

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Mike Allen	Principal
Javier Machuca	Senior Manager
Alan Demir	Senior Accountant