

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

INTRODUCTORY SECTION

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
JUNE 30, 2008**

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HIGHER EDUCATION DEPARTMENT
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**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OFFICIAL ROSTER
AS OF JUNE 30, 2008**

ADMINISTRATIVE OFFICIALS

<u>Name</u>	<u>Title</u>
Dr. Reed Dasenbrock	Cabinet Secretary
Tashina Banks-Moore.....	Financial Aid Coordinator
Dr. Pam Etre-Perez	Director of Adult Basic Education Program
Dr. William Flores	Deputy Secretary
M. Tino Pestalozzi.....	CPA, Director of Institutional Finance and Capital Projects Division
Dr. David Dadwiger	Director of Administrative Services and Chief Financial Officer
LaVerne Ellerbe	Director of NM GEAR UP

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Dr. Peter White, Cabinet Secretary
State of New Mexico
Higher Education Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparison statements for the general fund and major special revenue funds, and the aggregate remaining fund information of the State of New Mexico, Higher Education Department (Department) as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Department's non-major governmental funds presented as supplemental information in the accompanying combining and individual fund financial statements and the budgetary comparison statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Department'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 Department'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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2. A, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the budgetary comparison statements and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008, and the changes in its financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

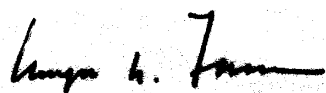
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparisons for the general fund and the special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the non-major governmental funds of the Department, as of June 30, 2008, and the respective changes in financial position, thereof, and the respective budgetary comparisons for the major capital funds and all non-major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2. D, the financial statements of the Department do not include the New Mexico Prepaid Tuition Program Fund – Section 529 Trust Plan of the New Mexico Education Trust Board. The Prepaid Tuition Program Fund is administered by the New Mexico Education Trust Board, and the Department does not have any direct financial affairs related to the Prepaid Tuition Program; therefore, the financial statements of the Prepaid Tuition Program Fund are not included in this audit, but are included in financial statements of the New Mexico Education Trust Board.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 17, 2009, on our consideration of the Department'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 the 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 viii through xiv, are not a required part of the basic financial statements, but are 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 basic financial statements and the combining and individual fund statements and budgetary comparison statements. The accompanying schedule of capital projects as supplemental information in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. Additionally, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of capital projects and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to basic financial statements taken as a whole.



Gwen K. Farner, CPA

June 17, 2009

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Introduction

The New Mexico Higher Education Department (Department) herewith presents its financial statements and required supplementary information for the year ended June 30, 2008. The Department is required to conform with the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Management's Discussion and Analysis outlines financial highlights and provides a brief economic outlook. A summary of the Department's financial statements is shown and discussed, including the prior year's amounts for comparison purposes.

A requirement under GASB 34 is the presentation of the Department's year-end assets, liabilities, and net assets in one column, as well as the presentation of expenses, revenues, and the resulting change in net assets in a condensed format. The purpose of these two reports is to show the Department's financial position and the annual activities in summary format, whereby all funds and cost centers are combined. Applying the required full accrual basis of accounting, offsetting amounts owed by one fund to another and inter-fund transfers have been eliminated. Furthermore, full accrual accounting basically means that the fiscal year's revenues are recorded regardless of when the corresponding cash is received, and expenses are recorded regardless of when corresponding bills are paid.

The two Department-wide financial statements, the **Statement of Net Assets** and the **Statement of Activities**, are followed by traditional fund financial statements, which are prepared using the modified accrual basis of accounting: a **Balance Sheet** and a reconciliation that shows how the latter differs from the Statement of Net Assets; a **Statement of Revenues, Expenditures, and Changes in Fund Balance** and a reconciliation that shows how the latter differs from the Statement of Activities; and various reports comparing actual results to budget.

Although the Department manages a dozen funds with multiple revenue sources, it is a relatively simple state agency, since it does not engage in business-type activities and does not have any component units. One of the Department's major financial roles is to manage state appropriations, federal funds, and bond issues by disbursing them to institutions of higher education and students, according to statutory and regulatory criteria. This "flow-through" money constitutes a vast majority of the resources reported in this document; the Department's discretionary money of about four million dollars is used for its basic operations.

The New Mexico Education Trust Board (ETB), created by the Laws 1997, Chapter 259, (Section 21-21K-1 through 21-21-K-7, NMSA 1978) is administratively attached to the Department; however, management has determined that the ETB is not a component unit, by applying the criteria set forth in GASB 39. Therefore, the ETB's financial statements are not incorporated into this report. The purpose of the Education Trust is to expend funds for payments to institutions of higher education on behalf of beneficiaries in accordance with the Education Trust Act. Investors enter into a college investment agreement with the Board to provide for higher education tuition and required fees for a beneficiary.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Government-wide Statements

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenue and expense are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Department's net assets and how they have changed. Net assets, the difference between the Department's assets and liabilities, are one way to measure the Department's financial health, or position.

The government-wide financial statement of the Department only contains governmental activities. Most of the Department's basic services are included here, such as financial aid for higher education, student loans, lottery tuition assistance and administered higher education projects and capital projects.

Discussion of Statement of Net Assets

Current assets decreased \$68.4 million (28.8%) during the year, of which \$44.6 million was attributable to nonrecurring State General Fund appropriations from the 2007 legislative session that were not expended until fiscal year 2008. The bulk (\$41 million) of these "special appropriations" represents money for public post-secondary institutions and special schools to address the significant backlog of deferred building maintenance and replacement.

The ending current balance of \$104.1 million consists primarily of cash and cash equivalents (\$92.5 million) money due from state and federal agencies (\$58.9 million) and loans/interest receivable (\$17.6 million). The cash balance includes \$68.2 million of accumulated Lottery Tuition Scholarship money available for future disbursement. The loans/interest receivable amount, which has accumulated over many years, is attributable to loan-for-service and loan repayment financial aid programs. Other amounts due from state agencies include \$5.1 million from a non-recurring general fund appropriation for development of a statewide online learning system and \$2 million that will be moved from the College Affordability Trust Fund to the College Affordability Scholarship fund to cover scholarship funding. The due from federal government amounts represent expenditures for the federal GEAR UP and Adult Basic Education programs in current fiscal, for which federal funds were not drawn down in FY08.

Current liabilities decreased \$82.2 million (55.8%) to \$65.1 million. As mentioned in the previous paragraph, \$44.6 million of this decrease is attributable to deferred revenue arising from state appropriations that were received in prior fiscal 2007, but not expended until fiscal year 2008.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

**Statement of Net Assets
(Dollars in thousands)**

Net Assets as of June 30, 2008 and 2007 (thousands)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Assets:			
Current assets	\$ 169,075	\$ 237,495	\$ (68,420)
Capital assets, net of accum. depr.	107	137	(30)
Total assets	<u>169,182</u>	<u>237,632</u>	<u>(68,450)</u>
Liabilities:			
Current liabilities	<u>65,103</u>	<u>147,339</u>	<u>(82,236)</u>
Total liabilities	<u>65,103</u>	<u>147,339</u>	<u>(82,236)</u>
Net Assets:			
Invested in capital assets, net of debt	107	137	(30)
Restricted	104,219	90,375	13,844
Unrestricted	<u>(247)</u>	<u>(219)</u>	<u>(28)</u>
Total net assets	<u>\$ 104,079</u>	<u>\$ 90,293</u>	<u>\$ 13,786</u>

Discussion of Statement of Activities

Current accounting standards require that "functional" expenses (\$15.9 million) and "program" revenues (\$55.8 million) be segregated from "general" revenues and expenses, although it should be noted that state General Fund appropriations (\$155.7 million) are essential for supporting functional (general government) costs. General Fund appropriations consisted of \$24.2 million for Student Financial Aid programs; \$47.8 million for institutional compensation increases; \$1.02 million for institutional capital projects, \$21.1 million for faculty endowment and student aid programs, and \$61 million for institutional flow-through programs and Department operations.

Total program revenues increased from the previous year, whereas total functional expenses decreased \$32.9 million (net), primarily due to increase in program development (\$4.6 million), financial aid grants distribution (\$48.1 million), and decrease in capital projects disbursements (\$43.7 million). Ending net assets slightly increase due to increase in reservation of Lottery Tuition Special Fund.

General (Operating) Fund:

State General Fund appropriations increased \$4.6 million (net) from the prior year, mostly attributable to a non-recurring appropriation to implement the Innovative Digital Education and Learning program. (IDEAL-NM) was charged with expanding educational opportunities, closing achievement gaps, and supporting college and career goals to prepare students for global competition by creating more connectedness in the educational system of the state from pre-schools to graduate education. This objective includes reducing the cost of technology access across P-12 schools, reducing personal and travel costs of state agency training for professional development, and increasing technology application skills of NM youth and adult learners. Development activity is underway to provide a single, statewide eLearning Management system for use by all public and state educational agencies, a comprehensive web portal for access to a clearinghouse of all online courses for P-20 learners, online courses for students in grades 6-12, and online training courses for state agency employees and P-12 teachers.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

In July 2006, the Department was awarded an \$18 million federal grant from the U. S. Department of Education (USDE). The grant is to be distributed over six years (\$3 million per year) for the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) initiative. For fiscal year 2008 and 2007, GEAR UP program expenditures were \$2.37 and \$1.4 million respectively; those bulks of expenditures are including grants financing to New Mexico statewide educational institutions.

The Department was awarded \$3.693 million and \$3.698 million for fiscal 2008 and 2007, respectively for the Adult Basic Education (ABE) programs. \$9.8 was spent in fiscal 2008, in which \$3.4 million was funded by the U.S. Department of Education and 6.4 million was funded by state money.

Capital Projects Fund:

At this fiscal year end, the Department held \$6.39 million in cash or cash equivalent and \$46.8 million in account receivable, due from the State Board of Finance in the Capital Projects Fund. Total of those assets support encumbrances for incoming capital project expenditures. Total capital project expenditures of \$5.975 million and 49.7 million for fiscal years of 2008 and 2007, respectively.

Financial Aid Fund:

Combined financial aid contributed in grants and other financing expenditures to the statewide institutions were \$24.2 for fiscal years 2008.

Loan bad debt and loans forgiven expenditures were \$3.07 million and \$3.3 for fiscal years 2008 and 2007, respectively. Loans are forgiven when students complete their service according to the loan contract term.

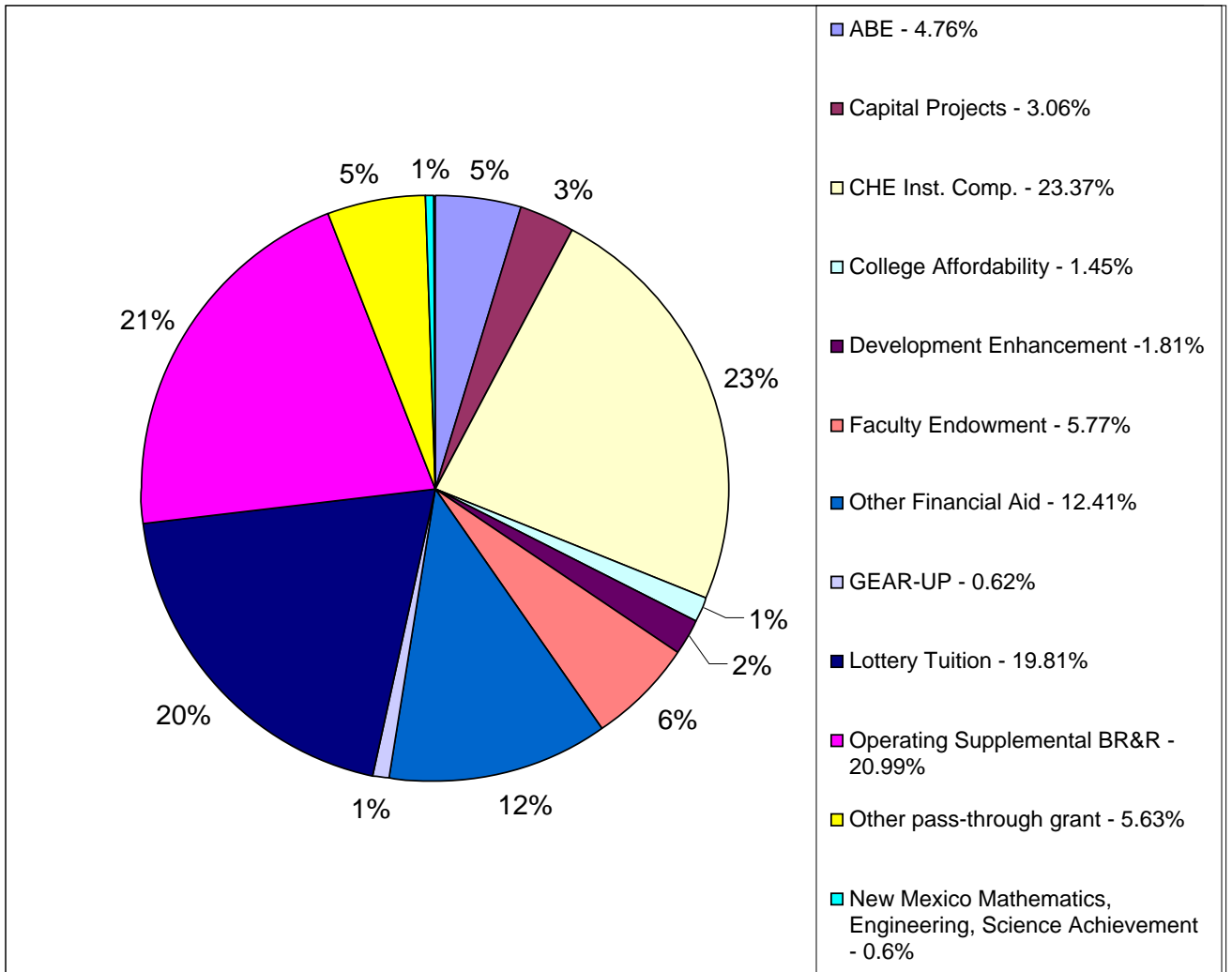
Lottery Tuition Fund:

Lottery proceeds transferred by the state into this fund and interest earnings on investments were \$47.1 million and \$35.6 million for fiscal years 2008 and 2007, respectively. The Lottery Tuition is to pays 100% tuition for qualified New Mexico high school graduates or GED recipients who want to attend a New Mexico public college or university. The eligibility is determined in the student's first semester. The Scholarship is a renewable full-tuition award, which may be received for up to eight **consecutive** semesters, beginning in the student's second semester in college. For fiscal year 2008, the Lottery scholarship award expenditures were \$38.7 million.

State-wide Institutional Distributions:

For fiscal year 2008, the Department distributed grants, financial aid, and other program monies of \$189.3 million stated in "Other financing uses" and \$6 million stated in "Capital projects". Total disbursements to state-wide institutional programs of \$195.3 million were distributed as follows:

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

**Statement of Activities
(Dollars in thousands)**

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Functional expenses:			
General government	\$ 8,253	\$ 3,701	\$ 4,552
Adult Basic Education	515	602	(87)
GEAR-UP	1,100	589	511
Financial Aid	16	263	(247)
Behavioral Health	59	-	59
Capital projects	5,975	49,707	(43,732)
Total functional expenses	<u>15,918</u>	<u>54,862</u>	<u>(38,944)</u>
Program revenues:			
Federal sources	6,872	5,261	1,611
State lottery proceeds	43,634	31,772	11,862
Interest income	4,461	6,052	(1,591)
Other (incl. licenses & fees)	829	118	711
Total program revenues	<u>55,796</u>	<u>43,203</u>	<u>12,593</u>
Net (expense) revenue	<u>39,878</u>	<u>(11,659)</u>	<u>51,537</u>
General revenues (expenses):			
State General Fund appropriations	155,662	111,411	44,251
Bond proceeds	4,952	1,600	3,352
Other sources	7,325	43,116	(35,791)
Other financing uses	(189,349)	(141,177)	(48,172)
Bad debt provision	(121)	(781)	660
Loans forgiven-principle	(1,642)	(1,571)	(71)
Loans forgiven-interest	(306)	(955)	649
Reversion	(2,613)	(114)	(2,499)
Total general revenues/(expenses)	<u>(26,092)</u>	<u>11,529</u>	<u>(37,621)</u>
Change in net assets	<u>13,786</u>	<u>(130)</u>	<u>13,916</u>
Net assets, beginning	<u>90,293</u>	<u>90,423</u>	<u>(130)</u>
Net assets, ending	<u>\$ 104,079</u>	<u>\$ 90,293</u>	<u>\$ 13,786</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Discussion of Significant Capital Assets

The Department does not own significant capital assets; it leases office space and some of the office equipment. At the end of fiscal year 2008, the Department's capital assets, consisting of equipment, furniture, fixtures, and vehicles, had a net book value of \$107,493 (\$430,454 cost less \$322,961 accumulated depreciation). Depreciation expense for the year was \$29,218.

Discussion of Budget Comparison

Overall, revenues, expenditures and transfers stayed within the approved budget for the year with the following exception:

- In the Department's general (operating) fund, Other Financing Uses (expenditures) had an original budget of \$14.7 million, whereas actual expenditures were \$63.1 million, causing a \$48.4 million unfavorable variance. This variance was attributed to non-recurring state General Fund appropriations from the 2007 legislative session that were not expended until current fiscal year. The bulk (\$44.43 million) of these "special" appropriations represents money for public, post-secondary institutions, and special schools to address the significant backlog of deferred building maintenance and replacement. The associated revenue was deferred to fiscal 2008 and this amount should be represented as multi-year budget and therefore should be included as additional expenditures for the budget year.
- Other Financing Sources (revenues) had final budget of \$15.69 million, where as the actual amount was \$61.61 million, creating a \$45.92 million increase as a favorable financing source for the Department for budget analysis. The bulk of \$44.43 million of special appropriation as mentioned in the above paragraph was reclassified from deferred revenue to financing sources to match current expenditures.

Economic Outlook

For fiscal year 2009, New Mexico revenues will be affected by the same forces that affect the national economy and tax revenues of most other states – a prolonged recession combined with falling gas and oil prices. Total state general fund revenues are projected to contract 4.9 percent in FY09 compared to the FY08 level. Despite the turn in economic outlook, the FY09 NMHED recurring general fund appropriation increased \$3.7 million from the FY08 level or about 8.5 percent.

The recession will likely contract the size of the corpus of the College Affordability Endowment Fund. The national economy has been in a recession since December 2007, the longest since the early 1980s. U.S. economic growth is projected to decline in FY09 resulting in declining value of NMHED investments.

Contact Information

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BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Governmental Activities
<u>Assets</u>	
Investment	\$ 92,536,400
Due from other state agencies	53,389,571
Due from federal government	5,495,024
Loans and interest receivable (net of allowance for doubtful accounts)	17,647,898
Prepaid expenses	5,955
Total current assets	169,074,848
Noncurrent assets:	
Capital assets	430,454
Less: accumulated depreciation	(322,961)
Total noncurrent assets	107,493
Total assets	169,182,341
<u>Liabilities</u>	
Account payables	9,676,827
Payroll payables	221,981
Accrued payroll liabilities	2,267
Due to other agencies and State General Fund	2,813,475
Due to project recipient	51,691,705
Deferred revenue	437,386
Due to federal government	6,886
Compensated absences:	
Due within one year	252,542
Total liabilities	65,103,069
<u>Net assets</u>	
Investment in capital assets	107,493
Restricted	104,218,614
Unrestricted (deficit)	(246,835)
Total net assets	\$ 104,079,272

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and changes in Net Assets
		Fees and Charges for Services	Operating grants and Contributions	
Primary government:				
Governmental activities:				
General governmental	\$ 8,235,475	\$ 390	\$ -	\$ (8,235,085)
Depreciation	17,904	-	-	(17,904)
Programs:				
Financial Aid	15,500	828,558	202,976	1,016,034
Adult Basic Education	514,831	-	3,395,313	2,880,482
NCLB	-	-	622,434	622,434
Behavioral Health	-	-	211,050	211,050
Achieving the Dream	58,887	-	69,887	11,000
GEAR-UP	1,088,797	-	2,369,765	1,280,968
Depreciation	11,314	-	-	(11,314)
Total primary government:	\$ 9,942,708	\$ 828,948	\$ 6,871,425	(2,242,335)
General revenues and transfers:				
State General Fund appropriations				155,662,000
Lottery grants				43,634,310
Bond proceeds				4,952,000
Other financing sources (note 12)				7,325,274
Other financing (uses) (note 12)				(195,323,556)
Total general revenues and transfers				<u>16,250,028</u>
Other investment incomes/expenses:				
Investment earnings				4,461,284
Bad debt provision				(121,456)
Loans forgiven - principle				(1,642,039)
Loans forgiven - interest				(306,571)
Total other investment incomes/expenses				<u>2,391,218</u>
Transfers - reversion to State General Fund - FY08				<u>(2,612,527)</u>
Change in net assets				13,786,384
Net assets, beginning				90,292,888
Net assets, ending				<u>\$ 104,079,272</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General Fund	Financial Aid	CHE Institution Compensation	Lottery Tuition	Capital Projects	Other Funds	Total Governmental Funds
<u>Assets</u>							
Investment	\$ -	\$ 6,324,330	\$ 2,101,400	\$ 68,156,192	\$ 6,386,408	\$ 11,719,414	\$ 94,687,744
Due from other state agencies	5,109,056	-	-	414,050	45,812,593	2,053,872	53,389,571
Due from federal government	5,417,456	77,568	-	-	-	-	5,495,024
Due from other funds	750,417	250,630	-	-	-	104,665	1,105,712
Loans and interest receivable (net of allowance for doubtful accounts)	-	17,647,898	-	-	-	-	17,647,898
Prepaid expenses	5,955	-	-	-	-	-	5,955
Total current assets	\$ 11,282,884	\$ 24,300,426	\$ 2,101,400	\$ 68,570,242	\$ 52,199,001	\$ 13,877,951	\$ 172,331,904
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Account payables	\$ 8,645,578	\$ 2,350	\$ -	\$ -	\$ 507,296	\$ 521,603	\$ 9,676,827
Cash overdraft	942,437	-	-	-	-	1,208,907	2,151,344
Payroll payables	221,981	-	-	-	-	-	221,981
Accrued payroll liabilities	2,267	-	-	-	-	-	2,267
Due to other funds	332,219	100,000	-	650,417	-	23,076	1,105,712
Due to other state agencies and general fund	712,075	-	2,101,400	-	-	-	2,813,475
Due to federal government	-	6,886	-	-	-	-	6,886
Due to project recipient	-	-	-	-	51,691,705	-	51,691,705
Deferred revenue	420,620	-	-	-	-	16,766	437,386
Total liabilities	11,277,177	109,236	2,101,400	650,417	52,199,001	1,770,352	68,107,583
Fund Balance:							
Unreserved	(248)	-	-	-	-	-	(248)
Reserved for:							
Prepaid expenses	5,955	-	-	-	-	-	5,955
Financial Aid	-	24,191,190	-	67,919,825	-	12,107,599	104,218,614
Total fund balance	5,707	24,191,190	-	67,919,825	-	12,107,599	104,224,321
Total fund balance	5,707	24,191,190	-	67,919,825	-	12,107,599	104,224,321
Total liabilities and fund balance	\$ 11,282,884	\$ 24,300,426	\$ 2,101,400	\$ 68,570,242	\$ 52,199,001	\$ 13,877,951	\$ 172,331,904

The accompanying notes are an integral part of the financial statements

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2008**

Total fund balance for the governmental funds (Balance Sheet) \$ 104,224,321

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Those assets consist of:

Capital assets	\$ 430,454	
Accumulated depreciation	(322,961)	
Total net capital assets		107,493

Compensated absences accrued in the government-wide financial statements and not budgeted in the current period, therefore, excluded from the government funds

Current portion of compensated absences	(252,542)	
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Total net assets - government-wide activities (Statement of Net Assets) \$ 104,079,272

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Financial Aid	CHE Institution Compensation	Lottery Tuition	Capital Projects	Other Funds	Total Governmental Funds
Revenues:							
Federal sources	\$ 6,598,562	\$ 202,976	\$ -	\$ -	\$ -	\$ -	\$ 6,801,538
Licenses, permits and fees	390	-	-	-	-	10,899	11,289
Lottery proceeds	-	-	-	43,634,310	-	-	43,634,310
Interest on investments	-	303,464	-	3,499,728	-	658,092	4,461,284
Interest on loans	-	817,659	-	-	-	-	817,659
Other grants	69,887	-	-	-	-	-	69,887
Total revenues	6,668,839	1,324,099	-	47,134,038	-	668,991	55,795,967
Expenditures:							
Current:							
Personal services and employee benefits							
	3,245,585	-	-	-	-	-	3,245,585
Contractual services	6,088,345	-	-	-	-	-	6,088,345
Other	530,965	15,500	-	-	-	-	546,465
Total expenditures	9,864,895	15,500	-	-	-	-	9,880,395
Excess (deficiency) of revenues over expenditures	(3,196,056)	1,308,599	-	47,134,038	-	668,991	45,915,572
Other financing sources (uses):							
State General Fund appropriations	61,613,200	24,177,000	47,748,800	-	1,023,000	21,100,000	155,662,000
Bond proceeds appropriations	-	-	-	-	4,952,000	-	4,952,000
Other financing sources (note 12)	5,229,697	9,010	-	-	-	2,086,567	7,325,274
Other financing (uses) (note 12)	(63,138,084)	(24,231,309)	(45,647,400)	(38,697,573)	(5,975,000)	(17,634,190)	(195,323,556)
Bad debt provision	-	(121,456)	-	-	-	-	(121,456)
Loans forgiven - principal	-	(1,642,039)	-	-	-	-	(1,642,039)
Loans forgiven - interest	-	(306,571)	-	-	-	-	(306,571)
Transfers - reversion to State General Fund - FY08	(511,127)	-	(2,101,400)	-	-	-	(2,612,527)
Total other financing sources (uses)	3,193,686	(2,115,365)	-	(38,697,573)	-	5,552,377	(32,066,875)
Net change in fund balances	(2,370)	(806,766)	-	8,436,465	-	6,221,368	13,848,697
Fund balance, beginning of period	8,077	24,997,956	-	59,483,360	-	5,886,231	90,375,624
Fund balance, end of period	<u>\$ 5,707</u>	<u>\$ 24,191,190</u>	<u>\$ -</u>	<u>\$ 67,919,825</u>	<u>\$ -</u>	<u>\$ 12,107,599</u>	<u>\$ 104,224,321</u>

The accompanying notes are an integral part of the financial statements

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

Net change in fund balances - Total Governmental Funds \$ 13,848,697
(Statement of Revenues, Expenditures and Changes in Fund Balance)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expenses. In the current period, there amount are:

Depreciation expense for governmental activities	\$ (17,904)	
Depreciation expense for program activities	(11,314)	
Total depreciation (Note 5)		(29,218)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Change in compensated absences	(33,095)	
		(33,095)

Change in net assets of Government Activities (Statement of Activities) \$ 13,786,384

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND (FUND 91000)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Modified Accrual Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Federal sources	\$ 5,863,921	\$ 9,074,971	\$ 6,598,562	\$ (2,476,409)
Other financing sources	-	-	69,887	69,887
Other	-	150,000	390	(149,610)
	<u>5,863,921</u>	<u>9,224,971</u>	<u>6,668,839</u>	<u>(2,556,132)</u>
Total revenues				
Expenditures:				
General government:				
Current:				
Personal services and employee benefits	3,161,200	3,274,751	3,245,585	29,166
Contractual services	1,891,100	2,023,684	6,088,345	(4,064,661)
Other costs	2,587,026	8,782,969	530,965	8,252,004
Other financing uses	14,640,641	11,559,613	63,138,084	(51,578,471)
	<u>22,279,967</u>	<u>25,641,017</u>	<u>73,002,979</u>	<u>(47,361,962)</u>
Total expenditures				
Excess (deficiency) revenues over expenditures	(16,416,046)	(16,416,046)	(66,334,140)	(49,918,094)
Other financing sources (uses):				
State General Fund appropriations	15,953,746	15,690,200	61,613,200	45,923,000
Other financing sources	462,300	725,846	5,229,697	4,503,851
Reversion	-	-	(511,127)	(511,127)
	<u>-</u>	<u>-</u>	<u>(511,127)</u>	<u>(511,127)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,370)</u>	<u>\$ (2,370)</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
ALL FINANCIAL AID PROGRAMS (FUND 21600)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Federal sources	\$ 569,900	\$ 569,900	\$ 202,976	\$ (366,924)
Interest on investments	100,000	100,000	303,464	203,464
Interest on loans	-	-	817,659	817,659
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	669,900	669,900	1,324,099	654,199
Expenditures:				
General government:				
Current:				
Other costs	24,952,900	10,886,582	2,085,566	8,801,016
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	24,952,900	10,886,582	2,085,566	8,801,016
Excess (deficiency) revenues over expenditures	(24,283,000)	(10,216,682)	(761,467)	9,455,215
Other financing sources (uses):				
State General Fund appropriations	-	-	24,177,000	24,177,000
Other financing sources	-	24,000	9,010	(14,990)
Other financing (uses)	(100,000)	(14,166,318)	(24,231,309)	(10,064,991)
Prior year cash re-budgeted	24,383,000	24,359,000	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	\$ -	\$ -	\$ (806,766)	\$ (806,766)

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
CHE INSTITUTION COMPENSATION FUND (FUND 27100)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Other financing sources	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	-	-
Other financing sources (uses):				
State General Fund appropriations	-	47,748,800	47,748,800	-
Other financing sources	-	(47,748,800)	(47,748,800)	-
Other financing uses	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ -	\$ -

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
LOTTERY TUITION FUND (FUND 63700)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Lottery appropriations	\$ -	\$ -	\$ -	\$ -
Interest on investments	-	-	3,499,728	3,499,728
Total revenues	-	-	3,499,728	3,499,728
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	3,499,728	3,499,728
Other financing sources (uses):				
Other financing sources	38,704,000	38,704,000	43,634,310	4,930,310
Other financing (uses)	(38,704,000)	(38,704,000)	(38,697,573)	6,427
Prior year cash re-budgeted	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 8,436,465	\$ 8,436,465

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUND (FUND 64400)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Bond proceeds appropriations	\$ -	\$ -	\$ 4,952,000	\$ 4,952,000
Total revenues	-	-	4,952,000	4,952,000
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	4,952,000	4,952,000
Other financing sources (uses):				
State General Fund appropriations	-	-	1,023,000	1,023,000
Other financing uses	(824,880)	(824,880)	(5,975,000)	(5,150,120)
Other financing sources	824,880	824,880	-	(824,880)
Net change in fund balance	\$ -	\$ -	\$ -	\$ -

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008
(Audited)**

<u>Assets</u>	<u>Endowed Merit Scholars Private-Purpose Trust Fund</u>	<u>College Affordability Endowment Trust Fund</u>	<u>Total Trust Fund</u>
Interest in State Investment Pool	\$ 2,179,222	\$ 2,383,336	\$ 4,562,558
Long-term Investments (net)	-	93,854,581	93,854,581
Due from other Agencies	-	13,848	13,848
Total assets	<u>2,179,222</u>	<u>96,251,765</u>	<u>98,430,987</u>
 <u>Liabilities and Net Assets</u>			
Due to other Agencies	-	2,000,000	2,000,000
Total liabilities	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
 Net Assets:			
In-trust for scholarships	<u>\$ 2,179,222</u>	<u>\$ 94,251,765</u>	<u>\$ 96,430,987</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2008
(Audited)**

	Endowed Merit Scholars Private-Purpose Trust Fund	College Affordability Endowment Trust Fund	Total Trust Fund
Balance, June 30, 2007	\$ 2,179,222	\$ 97,292,704	\$ 99,471,926
Additions			
Interest from investments	-	104,480	104,480
Total additions	-	104,480	104,480
Deductions			
Professional investment fees	-	128,416	128,416
Unrealized loss on investment	-	1,017,003	1,017,003
Distributions in accordance with trust agreements	-	2,000,000	2,000,000
Total deductions	-	3,145,419	3,145,419
Balance, June 30, 2008	<u>\$ 2,179,222</u>	<u>\$ 94,251,765</u>	<u>\$ 96,430,987</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. History and Function

The State of New Mexico, Higher Education Department (Department) was created by Chapter 289, Laws 2005, Higher Education Department Act (Section 9-25-1 through 9-25-13, NMSA 1978). The effective date of the Act was April 7, 2005. Its purpose was to establish a cabinet-level department to administer laws and exercise functions formerly administered and exercised by the Commission on Higher Education (CHE). The Higher Education Department Act repealed the statutes enabling the CHE.

The Department's primary duties are to (1) collaborate with colleges and universities to create a statewide public agenda to meet higher education needs and goals; (2) annually study and report to the Governor and the Legislative Finance Committee on enrollment capacity needs over a ten-year period, based on state demographic models, academic program demands, institutional competencies and infrastructure, state workforce needs, economic development goals and other factors; (3) by November 1st of each year, present to the Legislature a comprehensive funding request and a legislative priorities list for all higher education; the funding request, and priorities must encompass the needs of all public post-secondary educational institutions and programs; and (4) be concerned with the adequate and equitable financing of each of the institutions. Budgets of the educational institutions must be submitted to the Department for adjustment and approval before they are submitted to the State Budget Division, New Mexico Department of Finance and Administration. The Department evaluates and approves proposals for new graduate degree programs and major capital projects.

2. Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The more significant of the Department's accounting policies are described below:

A. Reporting Entity and Component Units

The Department is not included in any other government "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The Department has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The chief executive officer of the Department is the Cabinet Secretary, who is appointed by the Governor and confirmed by the State Senate. The Department is an agency of the primary government in the State of New Mexico. These financial statements include all funds, programs, and activities over which the cabinet secretary has direct oversight responsibility.

The Department has determined that it has no component units, as defined by GASB 39. In evaluating how to define the Department for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying criteria set forth in GASB 39. The basic, but not only, criterion for including a potential component unit within the reporting entity is the primary government'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. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the Department is able to exercise oversight responsibility.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

B. Basic Financial Statements – Government-Wide Statements (Measurement Focus)

GOVERNMENT-WIDE, PROPRIETARY, AND FIDUCIARY FUNDS FINANCIAL STATEMENTS:

Government-Wide, Proprietary, and Fiduciary Funds Financial Statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues from federal sources, licenses, permits and fees are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, includes grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from federal grants, entitlements, donations, lottery proceeds, licenses, permits and fees are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Department's basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements which provide information about the reporting government as a whole. Those statements include primary government activities, noting that neither fiduciary funds nor component units that are fiduciary in nature are included. Both the government-wide and fund financial statements (within the basic statement) categorized primary activities as either governmental or business type. The Department is a single-purpose government entity and has no business type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual basis, economic resource measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Department's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. In addition, revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement 33, *Accounting and Financial Reporting for Non-exchange Transactions*, which was adopted by the Department on July 1, 2001. Capital assets are reported at historical cost and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

Generally, the effect of inter-fund activity has been removed from the government-wide financial statements.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government) which is otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues from financial aid, Adult Basic Education, and GEAR-UP grants. Those program revenues must be directly associated with the function. The Statement of Activities presents a comparison between direct expenses and program revenues, such as Adult Basic Education program and GEAR-UP program, for the general government function of the Department's governmental activities. Direct expenses are those that are specifically associated with a programs or functions and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges for services paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. State General Fund appropriations are not classified as program revenues, including State General Fund appropriation bond proceeds and investment earnings, are presented as other financing sources. Provision for bad debt, principle and interest of forgiven student loans, and reversions are presented as other financing uses.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

The net cost by function is normally covered by general revenue. Since the Department pursues only one major objective—education—for its programs, it does not employ indirect cost allocation.

The government-wide focus is on the sustainability of the Department as an entity and the change in the Department's net assets resulting from the current year's activities.

C. Basic Financial Statements – Fund Financial Statements

The fund financial statements' emphasis is on the major funds of governmental category. Non-major funds are summarized into a single column. The Department has five major funds, one general fund and four special revenue funds:

1. General Fund, SHARE #91000
2. Financial Aid Fund, SHARE #21600
3. CHE Institution Compensation Fund, SHARE #21700
4. Lottery Tuition Fund, SHARE #63700
5. Capital Projects, SHARE #64400

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the basis on which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate (a) legal and covenant compliance, (b) the source and use of liquid resources, and (c) how the Department's actual results conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, the reconciliation is represented on the page following each statement. This explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The Department's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

The financial transactions of the Department are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures/expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be invested or spent and the means by which spending activities are controlled.

Current accounting standards set forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

The following fund types are used by the Department:

GOVERNMENTAL FUNDS TYPES

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

General Fund – The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is made up of the following SHARE Fund numbers:

91000 General Operating – The operating account for the Department. This is a reverting fund pursuant to the annual State General Appropriation Act.

The Adult Basic Education Fund is accounted for within the General Operating Fund for the purpose of funding adult basic education programs. As of June 30, 2007, the Adult Basic Education Fund accrued \$5,261 from a federal grant, therefore is reserved for future obligations. Any unexpended or unencumbered balance remaining in the fund at the end of each fiscal year shall revert to State General Fund per Section 21-1-27.5 NMSA 1978.

Special Revenue Funds – The Special Revenue Funds are used to account for specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes; therefore any unexpended or unencumbered balance remaining in the fund at the year end shall not revert to State General Fund.

21600 Financial Aid Fund – Most financial aid type programs are combined into the Financial Aid Fund and comprise the following programs:

Merit Based Scholarships Fund (SHARE Fund 21600, Dept #0000)
Allied Health Services Student Loan Fund (SHARE Fund 21600, Dept #3100)
Medical Student Loan Fund (SHARE Fund 21600, Dept #3200)
Minority Doctoral Assistance Loan Program (SHARE Fund 21600, Dept #3300)
Nursing Student Loan Fund (SHARE Fund 216, Dept #3400)
Osteopathic Student Loan Fund (SHARE Fund 21600, Dept #3500)
Southeastern New Mexico/Teachers/Teachers Quality Loan Fund (SHARE Fund 21600, Dept #3600)
Health Professional Loan Repayment Program (SHARE Fund 21600, Dept.'s #3700 and #3800)
Graduate Fellowship Fund (SHARE Fund 21600, Dept #3900)
Endowed Merit Scholars (SHARE Fund 21600, Dept #4000)
Work Study Program Fund (SHARE Fund 21600, Dept #4100)
New Mexico Scholars (SHARE Fund 21600, Dept #4200)
Student Choice Grants Fund (SHARE Fund 21600, Dept #4400)
State Student Incentive Grants Fund (SHARE Fund 21600, Dept #4500)

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Vietnam Veterans' Scholarship Fund (SHARE Fund 21600, Dept # 4700)
Lottery Tuition (SHARE Fund 21600, Dept #4800)
WICHE (Western Interstate Commission of Higher Education) (SHARE Fund 21600, Dept #4900)
Dentistry (SHARE Fund 21600, Dept #5000)
PSL Loan Repayment (Public Service Law Loan Repayment) (SHARE Fund 21600, Dept #7000)

21700 College Affordability Scholarship Fund
23900 College Affordability Endowment Fund
27100 CHE Institution Compensation Distribution
29200 College Goal Sunday Grants
34400 Post-Secondary Educational Institution Fund
47900 Faculty Endowment Fund
54500 Higher Education Performance Fund
63700 Lottery Tuition Fund
64400 Capital Projects
78200 Program Development & Enhancement Fund
88100 Legislative Endowment Scholarship Fund

FIDUCIARY FUND TYPES

Endowed Merit Scholars Private-Purpose Trust Fund and College Affordability Endowment Trust Fund was created pursuant to the Legislative Endowment Scholarship Act and College Affordability Endowment Act. The funds are presented in the statement of Fiduciary Net Assets. The original endowment corpus cannot be expended. Since the original amount of the fund does not change from year to year, income earned from investments shall be expended for scholarships to students at two-year public post-secondary educational institutions. Investment income is transferred to the Endowed Merit Scholars special revenue fund and College Affordability Endowment special revenue fund for disbursement of scholarships on an annual basis, as needed. Per Section 21-21J-8 and Section 21-21L-8, NMSA 1978, money in the fund shall not revert to the State General Fund.

D. New Mexico Prepaid Tuition Program Fund

The New Mexico Prepaid Tuition Program Fund is a Section 529 Plan, established within the Education Trust Fund. The Education Trust Fund was created within the state treasury pursuant to Section 21-21K-3, NMSA 1978, and is administered by the Education Trust Board (Board). The Board was created pursuant to Section 21-21K-4, NMSA 1978 and it is administratively attached to the Higher Education Department.

The Board deposits all money received pursuant to college investment agreements and prepaid tuition contracts into the fund. Money in the fund consists of appropriations, investment, payments, gifts, bequests and donations. Per Section 21-21K3, all money in the fund is appropriated to the Board. Expenditures from the fund shall be for payments to institutions of higher education on behalf of beneficiaries, for refunds, and for costs of administering the Education Trust Act according to Section 21-21K3(B).

The Education Trust Board is administratively attached to the Department because the Department provides administrative services to the Education Trust Board when requested by the Board. The New Mexico Prepaid Tuition Program – Section 529 Trust Plan is not included with the financial statement of the Department because the Department does not have any direct financial affairs related to the Prepaid Tuition Program.

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E. Non-Current Governmental Assets/Liabilities

Non-current governmental assets and liabilities are incorporated into the governmental column in the government-wide Statement of Net Assets.

F. Basis of Accounting

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied.

The **government-wide financial statements** are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, which was adopted by the Department as of July 1, 2001. Capital assets are reported at historical costs and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet. The reported fund balance is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they present a summary of sources and uses of available spendable resources during a period. Revenues are recognized as soon as they are both measurable and available. Revenues are available if collectible within the current period or soon enough afterwards to pay liabilities of the current period. Revenues are available if collected within sixty days of the end of the fiscal year. Expenditures are recorded when a liability is incurred, as under full accrual accounting. The Department does not have any debt service expenditures. The current portion of the compensated absences liability is not included in the fund financial statements because the State of New Mexico does not budget for any compensated absences in the current year.

G. Budget and Budgetary Accounting

The State Legislature makes annual appropriations to the Department which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget (budgetary basis) and a financial control system which permits a budget-to-actual revenue and expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. The budgetary comparison is prepared on the modified accrual basis of accounting. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico, Department of Finance and Administration within the limitations specified in the annual General Appropriation Act. Budget amounts identified as "final" in the financial statements (budget comparison statements) are the final authorized expenditure levels, including any approved revisions (budget adjustment requests).

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The Department follows these procedures in establishing the budgetary data reflected in the financial statements:

1. No later than September 1, the Department submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and number of positions, and the means of financing them.
2. Budget hearings are scheduled before the LFC, House Appropriations and Finance Committee, and Senate Finance Committee. The final outcome of those hearings and the legislative process is incorporated into the state's annual General Appropriation Act.
3. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
4. No later than May 1, the Department submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriations made by the legislature. The DFA Budget Division reviews and approves the operating budget, which becomes effective on July 1. All subsequent budgetary adjustments must be approved by the Director of the DFA Budget Division.
5. Legal budgetary control for expenditures is at the appropriation unit level.
6. Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds.
7. Per the General Appropriation Act of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation act of 2007 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. The actual expenditures in the budgetary comparison exclude any accounts payable that were not paid timely and therefore required a "Request to Pay Prior Year Bills" out of current year budget. They will be paid out of the budget of the following fiscal year. An agency's reversions should be calculated using the budget basis expenditures because the agency does not have the legal right to keep the cash related to accounts payable that were not paid timely. This result in a negative fund balance in the modified accrual basis financial statements of a reverting fund. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control should be disclosed.

In accordance with the requirements of Section 2.2.2 10.A (2) (b) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies* and the allowance made by GASB 34 footnote 53, the budgetary comparison statement for the General Fund and major special revenue funds have been included as part of the basic financial statements.

H. Interest In State Investment Pool

The Department's funds are held by the State Treasure as an interest in the State Investment Pool for purposes of cash flows. The Department considers all highly liquid investments, which are on deposit with the State Treasurer, as interest in the state investment pool.

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I. Inventories

Office supply inventory items are expensed when purchased. Therefore, the financial statements do not reflect inventory of office supplies on hand at June 30, 2008.

J. Accounts and Vouchers Payable

Accounts payable represent expenditures for goods and services for the current fiscal year, but voucher for payment with the DFA is subsequent to fiscal year ending June 30, 2008.

Vouchers payable represent expenditures which have been processed for payment with the DFA, but a warrant has not been issued for payment at June 30, 2008.

K. Interfund Receivables and Payables – (Due from/to other funds)

Department interfund receivables and payables are eliminated in the statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities of the primary government.

L. Accrued Payroll and Benefits Payable

A portion of payroll expenditures (eleven days) pertaining to year end June 30, 2008, was paid on July 4, 2008. The pay period ending June 30, 2008, included ten (10) working days (June 14 through 27, 2008), and period ending June 30, 2008 was paid on July 18, 2008 for one (1) working day. Since the disbursements did not occur until after fiscal year ended, accrued salaries, payroll taxes and benefit payables totaling \$224,248 were reflected in the balance sheet statements as of June 30, 2008.

M. Capital Assets

Property, plant and equipment purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State’s capitalization policy, i.e. the dollar value above which asset acquisitions are added to the capital accounts, is \$5,000, per Section 12-6-10 NMSA 1978. There is no software included in Department capital assets.

Depreciation on all capital assets is provided on the straight-line basis over the following estimated useful life with no salvage value: Furniture and Fixtures – 10 years, Equipment and Machinery – 5 years, and Software and Licenses – 3 years.

GASB #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The Department does not own any infrastructure assets.

The Department utilizes facilities and buildings that are leased and not owned by the Department. These assets and the related depreciation expenses are not included in the accompanying financial statements.

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N. Accrual Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if (a) the employees' right to receive compensation as attributable to services already rendered, and (b) it is probable that the employer will compensate employees for benefits through paid time off or some other means, such as cash payments at termination or retirement. Where applicable, the compensated absence liability is presented in two parts in the government-wide financial statements as current portion and long-term portion. The current portion is the amount expected to be expended during the following fiscal year. It is an estimate management determined by applying a percentage to the prior year's ending liability. The percentage used was determined by comparing the amount actually paid out during the fiscal year with the prior year's liability balance.

Employees accumulate annual leave at a rate based on appointment date and length of service. A maximum of 240 hours of annual leave may be carried forward at the end of the last pay period beginning in December. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Employees accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are required to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement employees with over 600 hours accumulated sick leave have the option to convert 400 hours of sick leave to cash at one half of their hourly rate.

The Fair Labor Standards Act (FLSA) requires that nonexempt employees accumulate compensatory or overtime at a rate of 1.5 times the number of hours worked in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensatory time at the same rate as the number of hours worked. No employee, regardless of FLSA classification, can carry forward unused compensatory time at the end of the last pay period beginning in December. Overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employer's FICA and Medicare payroll taxes.

O. Federal Grants Receivable (Deferred Revenue)

Various reimbursement procedures are used for federal awards received by the Department. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent draws of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or deferred revenue balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period.

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in this estimate are recorded in the period that the estimate is changed.

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P. Restrictions, Reservations and Designations

Reservations of fund balance in governmental fund statements are created to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific restrictions and reservations of fund balance accounts are summarized below:

Restricted/Reserved for:	
Financial Aid programs	\$ 24,191,190
Lottery Tuition	67,919,825
College Affordability Scholarship	792,447
College Goal Sunday Grant	758
Post-secondary Educational Institution	231,826
Faculty Endowment	7,313,685
Performance Fund	2,827,614
Program Development Enhancement	152,293
Endowed Merit Scholarships	788,976
Total Restricted net assets	<u><u>\$ 104,218,614</u></u>
Reserved for Special revenue funds	\$ 104,218,614
Reserved for prepaid expenses	5,955
Unreserved	(248)
Total fund balance	<u><u>\$ 104,224,321</u></u>

Q. Net Assets

The government-wide and business types fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted. The Department has no business type activities.

Investment in Capital Assets (net of related debt) – reflect the portion of net assets associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Department does not have any debt related to capital assets.

Restricted Assets – Net assets are reported restricted when constraints placed on net asset use are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted Assets – consist of net assets that do not meet the definition of “restricted” or invested in capital assets, net of related debt.

The Department allocates expenses to restricted or unrestricted resources based on the budgeted source of funds.

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R. Use of Estimates

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

S. Short-Term Debt

The Department had no short-term debt during the year.

3. Investment -- State Treasurer's Local Government Investment Pool

GASB statement 40, Deposit and Investment Risk Disclosures, relates to how deposits and investments are reported in the annual financial statements of governmental entities. The Statement is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. Governments need to report deposit and investment risks related to credit risk (including custodial credit risk), concentration of credit risk, interest rate risk, and foreign currency risk.

The Office maintains all funds with the New Mexico State Treasurer General Fund Investment Pool (STGFIP). The Office does not have an investment policy that limits investment interest rate risk.

The STGFIP is not SEC registered. The State Treasurer is authorized to invest the short-term investment fund, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through Section 6-10-10 P and Sections 6-10-10.1 A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the local government investment pool is voluntary.

In respect to credit risk, the New Mexico STGFIP, a government investment pool, is rated AAAM by Standard & Poor's, or rated at AAA for credit risk. Public funds are not required to disclose custodial credit risk for external investment pools; therefore, the Office's investment in New Mexico STGFIP is exempt from this requirement.

Concentration of credit risk is defined as investments of more than 5% in any one issuer. External investment pools, such as the New Mexico STGFIP, are excluded from the requirement of disclosing concentration of credit risk; therefore, investments in the New Mexico STGFIP are exempt from this disclosure.

Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. The following is the disclosure of the STGFIP investment rates:

June 30, 2008		Fair market value	
New Mexico STGFIP	AAAM rated	\$97,098,958	46 day WAM

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According to GASB Statement 40, an acceptable method for reporting interest rate risk is WAM, which is the method used for reporting purposes for the New Mexico STGFIP investment report. The annual financial audit report may be obtained by writing to the State Treasurer Office P.O. Box 608 Santa Fe, New Mexico 87504-0608, and it also available on the State Treasurer's website: www.stonm.org.

The New Mexico STGFIP has no foreign currency risk as all investments in the Investment Pool and is not rated for credit risk as of June 30, 2008. The Office's investment pool as of June 30, 2008 as follows:

SHARE Fund No.	Fund Name	State Treasurer Balance	Outstanding Warrants	Reconciled Balance	Interest Bearing
91000	General Fund	\$ (942,437)	\$ -	\$ (942,437)	No
21600	Student Financial Aid	6,324,330	-	6,324,330	Yes*
21700	College Affordability Scholarship	(1,208,907)	-	(1,208,907)	No
23900	College Affordability Endowment Fund	2,383,336	-	2,383,336	Yes
27100	CHE Institution Compensation	2,101,400	-	2,101,400	No
29200	College Goal Sunday Grant	8,332	-	8,332	No
34400	Post-Secondary Education Institution Fund	136,601	-	136,601	No
47900	Faculty Endowment Fund	7,814,515	-	7,814,515	Yes
54500	Performance Fund	2,813,475	-	2,813,475	Yes
63700	Lottery Tuition Fund	68,156,192	-	68,156,192	Yes*
64400	ADA Capital Projects	6,386,408	-	6,386,408	No
78200	Performance Development Fund	151,965	-	151,965	Yes*
88100	Endowed Merit Scholarship Fund	2,973,748	-	2,973,748	Yes*
		<u>\$ 97,098,958</u>	<u>\$ -</u>	<u>97,098,958</u>	
Less:					
88100	Endowed Merit Scholars Non-expendable Trust Fund included above			(2,179,222)	
23900	College Affordability Endowment Trust			<u>(2,383,336)</u>	
	Total expendable cash			<u>\$ 92,536,400</u>	
Non-expendable Trust Fund:					
88100	Endowed Merit Scholars			\$ 2,179,222	
23900	College Affordability Endowment Trust			<u>2,383,336</u>	Yes*
	Total non-expendable cash			<u>\$ 4,562,558</u>	
Reconciliation to Balance Sheet Governmental Funds:					
	Investment			\$ 94,687,744	
	Cash overdraft			<u>(2,151,344)</u>	
	Total expendable cash			<u>\$ 92,536,400</u>	

* Investment earnings are classified as program revenues because its use is restricted to programs for financial aid and scholarship funding.

Amounts for all programs are deposited into the respective fund or sub-fund. The Legislative Endowment Scholarship fund includes both restricted and unrestricted amounts. The restricted portion of \$2,179,222 is shown as a Fiduciary Fund. The unrestricted portion of \$794,526 is shown as a non-major governmental fund – "Endowed Merit Scholars Fund."

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(a) Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of failure of a depository financial institution, the government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Department does not have any funds held by an outside party; therefore, the Department's investment pool balance as of June 30, 2008 is not exposed to custodial credit risk.

4. Receivables

A. Due from Other State Agencies

Total amounts that are due from other state agencies are as follows:

SHARE #	Name	Description	Amount	Due From
91000	General Fund	Statewide cyber academy and distance learning	\$ 5,109,056	Office of the New Mexico State Treasurer
63700	Lottery Tuition	Accrual investment interest	414,050	Office of the New Mexico State Treasurer
64400	Capital Project	Bond proceeds	45,812,593	New Mexico Board of Finance
21700	College Affordability Scholarship	Annual distribution scholarship fund	2,000,000	College Affordability Endowment Trust Fund SHARE #23900
21700	College Affordability Scholarship	Accrual investment interest	1,354	Office of the New Mexico State Treasurer
47900	Faculty Endowment	Accrual investment interest	20,773	Office of the New Mexico State Treasurer
54500	Performance Fund	Accrual investment interest	14,139	Office of the New Mexico State Treasurer
78200	Development Enhancement	Accrual investment interest	328	Office of the New Mexico State Treasurer
88100	Enhowed Merit Scholarships	Accrual investment interest	17,278	Office of the New Mexico State Treasurer
Due from Other State Agencies			<u>\$ 53,389,571</u>	

The State Board of Finance sells severance tax bonds and general obligation bonds as authorized by the State Legislature, and holds the proceeds until such time that the Department requests such funds as reimbursement for expenditures.

The proceeds of each project are recorded in the respective Capital Projects Fund as bond proceeds when sold and the balances are recorded as "Due from Other State Agencies."

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A summary of amounts held by project, as reported by the Administrative Services Division of the Department of Finance and Administration, as of June 30, 2008 follows:

Project	Group	Approp. ID	Amount Sold	Amount Draw	Amount AIPP	Balance Held	SHARE #
						by State Board of Finance June 30, 2008	Capital Project Fund
Statewide Higher Ed. Info. Tech.	GOB05	GOB05-04	\$ 35,667,548	\$ (21,907,790)	\$ (214,500)	\$ 13,545,258	64400
Academic Acquisition Statewide	GOB07	GOB07-06	25,845,000	(1,014,848)	(228,450)	24,601,702	64400
Infrastructure Renovation	POOL06	SSTB06	1,400,000	(153,304)	-	1,246,696	64400
UNM Infrast Renovation & Expansion PRJTS	STB07A	07-3785	1,600,000	(93,663)	(16,000)	1,490,337	64400
UNM Infrastructure Renovate & Expansion	STB07SD	STB07SD 07	2,340,000	-	(23,400)	2,316,600	64400
Luna CMCT College Santa Rosa Equipment	STB06A	06-0650	2,612,000	-	-	2,612,000	64400
Total			\$ 69,464,548	\$ (23,169,605)	\$ (482,350)	\$ 45,812,593	

B. Due From Federal Government

Amounts shown as "Due from Federal Government" represent expenditures to be reimbursed under various cost-sharing agreements. The amounts recorded were received subsequent to the balance sheet date; therefore, no allowance for bad debt has been recorded.

C. Loans and Interest Receivable

Under the Department's loan for service programs, i.e. Medical, Osteopathic, Nursing, Allied Health Services, Minority Doctoral, Teachers, Dentistry, and WICHE, payments for principle and interest are deferred while the individual is enrolled in a qualified educational curriculum. Both principal and interest obligations can be forgiven if the recipient performs service in a designated shortage area or accepts a teaching position at a sponsoring university (for Minority Doctoral program).

The balances of loans and interest receivable are recorded at net of allowances for doubtful accounts. Allowance for doubtful accounts has been established for individual principal and interest balances that will not be collected. These amounts are as follows.

<u>Loan for Service Program</u>	Total Loans	Allowance for	Net Loans
	Receivable	Doubtful Accounts	Receivable
Allied Health Services Student Loan	\$ 703,118	\$ (161,317)	\$ 541,801
Medical Student Loan	3,061,221	(642,158)	2,419,063
Minority Doctoral Loan	1,156,679	(60,993)	1,095,686
Nursing Student Loan	2,931,494	(1,418,325)	1,513,169
Osteopathic Student Loan	824,127	(161,960)	662,167
Southeastern NM Teachers	1,030,865	(300,926)	729,939
WICHE	10,793,165	(245,478)	10,547,687
Dentistry	138,386	-	138,386
Total	\$ 20,639,055	\$ (2,991,157)	\$ 17,647,898

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5. Capital Assets

The capital assets activity for the year ended June 30, 2008, is as follows:

	Balance 6/30/2007	Additions FY08	Deletions FY08	Balance 6/30/2008
Capital assets:				
Equipment & Machinery	\$ 318,612	\$ -	\$ -	\$ 318,612
Furniture & Fixtures	34,662	-	-	34,662
Vehicles	77,180	-	-	77,180
Total at historical cost	<u>\$ 430,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 430,454</u>
Less accumulated depreciation:				
Equipment & Machinery	\$ 265,254	\$ 20,052	\$ -	\$ 285,306
Furniture & Fixtures	27,878	1,448	-	29,326
Vehicles	611	7,718	-	8,329
Total accumulated depreciation	<u>\$ 293,743</u>	<u>\$ 29,218</u>	<u>\$ -</u>	<u>\$ 322,961</u>
Net capital assets:				
Equipment & Machinery	\$ 53,358	\$ (20,052)	\$ -	\$ 33,306
Furniture & Fixtures	6,784	(1,448)	-	5,336
Vehicles	76,569	(7,718)	-	68,851
Total net capital assets	<u>\$ 136,711</u>	<u>\$ (29,218)</u>	<u>\$ -</u>	<u>\$ 107,493</u>

Depreciation expenses was charged to function as follow:

General government	\$ 17,904
GEAR-UP program	11,314
Total depreciation	<u>\$ 29,218</u>

The Department does not have any debt related to capital assets at June 30, 2008. Depreciation expense for the current year was \$29,218 and is included in the "General Government" expenditures function in statement of Activities.

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6. Compensated Absences Payable

Employees are entitled to accumulate annual leave at a graduated rate based on the years of service. A maximum of 240 hours can be carried forward at calendar year end. The Department has recognized a liability of \$252,542 in the Statement of Net Assets for annual and sick leave based on current pay rates and hours accumulated at June 30, 2008.

A summary of changes in the compensated absences payable for the year ended June 30, 2008, is as follows:

	<u>Balance 7/1/2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/2008</u>	<u>Amount Due within One Year</u>
Compensated absences payable:					
General Fund	\$ 219,449	\$ 150,221	\$ (117,128)	\$ 252,542	\$ 252,542

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7. Reversion/Due to State General Fund

With the exception of State General Fund appropriations subject to reversion, the Department was a non-reverting agency in the year ended June 30, 2008. The following shows the computation of the amount due to the State General Fund at June 30, 2008:

(a) Reversion to State General Fund

SHARE	#91000	#27100	
Fund Description	General Fund	CHE Institution Compensation	Total
Cash balance, June 30, 2008	\$ (942,437)	\$ 2,101,400	\$ 1,158,963
Add:			
Due from other state agencies	5,109,056	-	5,109,056
Due from federal government	5,417,456	-	5,417,456
Due from other funds	750,417	-	750,417
Less:			
Account payables	(8,645,578)	-	(8,645,578)
Accrual salaries and benefits payable, 6/30/08	(224,248)	-	(224,248)
Due to to funds	(332,219)	-	(332,219)
Deferred revenue	(420,620)	-	(420,620)
Due to state general fund, July 1, 2007	(114,255)	-	(114,255)
Due to other New Mexico State University	(82,529)	-	(82,529)
Receipts held in suspense from prior year	(4,164)	-	(4,164)
Request to Pay Prior Year	248	-	248
Total reversion to state general fund - FY08	<u>\$ 511,127</u>	<u>\$ 2,101,400</u>	<u>\$ 2,612,527</u>

(b) Due to State General Fund

Due to State General Fund, 7/1/07	\$ 114,255	\$ -	\$ 114,255
Receipts held in suspense from prior year	4,164	-	4,164
Reversion to State General Fund - FY08	<u>511,127</u>	<u>2,101,400</u>	<u>2,612,527</u>
Due to State General Fund	629,546	2,101,400	2,730,946
Due to other New Mexico State University (Accrual Management Salary)	<u>82,529</u>	<u>-</u>	<u>82,529</u>
Due to other agency and State General Fund	<u>\$ 712,075</u>	<u>\$ 2,101,400</u>	<u>\$ 2,813,475</u>

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8. Deferred revenue

As of June 30, 2008, the Department has an amount of \$437,386 deferred revenue. The balances are caused by the timing differences of cash receipts and expenditures stated as follows:

<u>SHARE</u>			
<u>Fund</u>	<u>Fund Name</u>	<u>Amount</u>	<u>Explanation</u>
91000	General fund	\$ 80,000	Fund was received for Federal Fiscal Relief Award
91000	General fund	260,507	Fund was received for Behavioral Health
91000	General fund	80,113	Fund was received for Achieving the Dream grant programs
29200	College Goal Sunday Grant	7,574	For college goal grant distribution
34400	Secondary Educational Institution	9,192	For secondary education grant distribution
Total deferred revenue		<u>\$ 437,386</u>	

9. Operating Leases

The Department leases certain office space and equipment under lease agreements with terms ranging from one year to five years with options to renew for additional one to five year terms. Expenditures for operating leases and other rentals for the year ended June 30, 2008, were \$143,614. Future minimum payments under these operating leases are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 150,167
2010	285,417
2011	287,865
2012	290,386
2013	282,571
2014	276,990
Total	<u>\$ 1,573,396</u>

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10. Deferred Compensation Plan – State of New Mexico

The State of New Mexico offers state, local government and school district employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all State employees and those local government and school district employees whose employers have elected participation in the plan, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or beneficiary) solely the property and rights of the State of New Mexico (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account of each participant.

Neither the Department nor the State of New Mexico makes any contributions to the deferred compensation plan. All contributions withheld from participants by the Department have been paid to the New Mexico Public Employees' Retirement Association, which administers the plan.

11. Operating Transfers and Interfund balance

- a). The following amounts were transferred between funds within the Department's fund structure, to other agencies or received by the Department from other agencies.

Interfund transfers for the year ended June 30, 2008, consisted of the following:

		Transfer from
		SHARE #23900
		College Affordability
		Endowment Trust Fund
Transfer to	SHARE #21700	
	College Affordable	
SHARE #21700	Scholarship	<u>\$ 2,000,000</u>

Transfer is used for scholarship from the fund that statute requirement per Section 21-21L-8 NMSA 1978 for annual distribution.

**STATE OF NEW MEXICO
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b). Interfund transfers for the year ended June 30, 2008, consisted of the following:

#91000	Due to general fund from:	
	#63700-Lottery Tuition	\$ 650,417
	#21600-Financial Aid	100,000
		<u>\$ 750,417</u>
#21600	Due to Financial Aid from:	
	#91000-General fund	\$ 227,554
	#88100-Endowed Merit Scholarship	22,828
	#34400-Post-Secondary Educational Institution	248
		<u>\$ 250,630</u>
#34400	Due to Post-Secondary Educational Institution from:	
	#91000-General fund	\$ 104,665
		<u>\$ 104,665</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payment between funds are made. These balances are expected to be repaid within one year from the issued date of the financial statements.

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12. Other Financing Sources

<u>Fund No.</u>	<u>Fund Name/Description</u>	<u>Financing Sources</u>	<u>Financing Uses</u>
<u>91000</u>	General Fund		
	Compensation allocation for fiscal year 2008	\$ 120,641	\$ -
	Statewide cyber academy and distance learning	5,109,056	-
	Grant distribution for GEAR-UP program	-	1,218,774
	Ideal New Mexico	-	15,600
	No Child Left Behind	-	622,434
	Various Appropriation	-	700,000
	Operating - Dental Hygiene Program	-	750,000
	Operating - Special Project Expansion	-	1,720,500
	Athletic Flow Through grant	-	1,000,000
	Supplemental Nursing Camp	-	500,000
	Operating Enrollment Decline Offset	-	2,668,400
	Operating Supplemental BR&R	-	41,000,000
	High Skills	-	599,400
	Engaging Latino Communities for Education	-	600,000
	Behavioral Health Purchase	-	211,050
	ABE program	-	9,296,526
	Grant distribution to Achieving the Dream	-	11,000
	New Mexico Mathematics, Engineering, Science Achievement	-	1,183,400
	Grant distribution for Special programs per Law 07	-	1,041,000
<u>21600</u>	Financial Aid		
	Lottery Tuition	9,010	-
	Grant distribution to other college and institutions	-	24,231,309
<u>27100</u>	CHE Institution Compensation		
	To provide a three-fourths percent increase in employer contribution to the education retirement fund	-	45,647,400
<u>63700</u>	Lottery Tuition		
	Grant distribution to other college and institutions	-	38,697,573
<u>64400</u>	Capital Projects		
	New Mexico State Board of Finance for capital projects Used for institutions capital projects draw-sown	-	5,975,000
<u>21700</u>	College Affordability Scholarship		
	Annual contribution endowment for scholarship	2,000,000	-
	Grant distribution to other college and institutions	-	2,828,287
<u>34400</u>	Post-Secondary Educational Institution		
	Fees contribution from other colleges and institutions	86,567	-
<u>47900</u>	Faculty Endowment		
	Grant distribution to other college and institutions	-	11,273,903
<u>78200</u>	Development Enhancement		
	Grant distribution to other college and institutions	-	3,532,000
		<u>\$ 7,325,274</u>	<u>\$ 195,323,556</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
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13. PERA Pension Plan

Plan Description – Substantially all of the Department’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy – Plan members are required to contribute 7.42 percent of their gross salary. The Department is required to contribute 16.59 percent of the gross covered salary. The contribution requirements of plan members and the Department are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the years ended June 30, 2008, 2007, and 2006 were \$380,953, \$336,503, and \$271,292, respectively, which equal the amount of the required contributions for each year.

14. Post-Employment Benefits – State Retiree Health Plan

Plan Description. Higher Education Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as participant in the RHCA plan on the person’s behalf unless that person retires on or before the employer’s RHCA effective date, in which event the time period for employee and employer contributions shall become the period of time between the employer’s effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who serve 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 the 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.

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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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Higher Education Department's contributions to the RHCA for the years ended June 30, 2008, 2007, and 2006 were \$29,710, \$26,335, and \$20,916, respectively, which equal the required contributions for each year.

15. Risk Management and Litigation

The Department is exposed to various risk of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Section 15-7-2, NMSA 1978 requires the General Service Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure, or use a combination of both. For the past several years, the RMD has elected to self-insure and has not obtained liability coverage from commercial insurance companies. The RMD has effectively managed risk through various employee education and prevention programs. Risk management expenditures for the Department are accounted for in the General Fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Department is a party.

16. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claim, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, but management does not expect disallowed amounts, if any, to be material to the financial statements.

Various loans are included in loans and interest receivable (net of allowance for doubtful accounts) where the students have filed for bankruptcy. At this time, it cannot be determined whether the loans will be discharged by the bankruptcy court. Therefore, no adjustments have been made to the financial statements regarding these loans.

MAJOR GOVERNMENT FUNDS

General Fund

The Department's General Fund (SHARE #91000) is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to expenditures for specific purpose.

Financial Aid Fund (SHARE Fund #21600) – All financial aid type programs are combined into the Financial Aid Programs' Combined Statements of Revenue and Expenditures – Budget and Actual (Non-GAAP budgetary basis). Budget comparison by individual programs is presented as Additional Information – Supporting Schedules. This fund includes a roll up of the following special revenue funds:

Allied Health Services Student Loan Fund (SHARE Fund #21600 Dept. #3100) – The purpose of this program is to meet the emergency currently existing from the shortage of allied health professionals in under-served areas of the state by increasing the number of practitioners in rural areas through a program of loans for allied health students. Each applicant declares his intent to practice his allied health profession within one of the areas of the state designated as an under-served area by the Health Professions Advisory Committee, which was established and organized by the Department (21-22C, NMSA 1978). Per Section 21-22C-8, money appropriated to the fund is non-reverting to the State General Fund.

Medical Student Loan Fund (SHARE Fund #21600 Dept. #3200) – The Medical Student Loan Fund was created to increase the number of medical doctors in under-served areas of the state which have experienced shortages of medical doctors, by granting loans to medical students (21-22, NMSA 1978). Per Section 21-22-8, money appropriated to the fund is non-reverting to the State General Fund.

The Department is authorized to grant loans to defray the expenses of the medical education of students deemed qualified by the Department. The student must declare his intent that, after licensing, he will commence his practice in a designated shortage area. The act also provides for the forgiveness of a portion of the loan principal and interest for each year that a loan recipient practices his profession as a licensed physician in areas approved by the Health Professions Advisory Committee as not being adequately served by medical practitioners.

Minority Doctoral Assistance Loan Program (SHARE Fund #21600 Dept. #3300) – The purpose of the act is to increase the number of students from minority groups and women available to teach engineering, physical or life sciences, and mathematics in New Mexico colleges and universities. The act also provides for the state to forgive certain amounts of the principal and interest for each year that the student teaches as a faculty at a New Mexico four year institution (21-21I, NMSA 1978). Per Section 21-21I-8, money appropriated to the fund is non-reverting to the State General Fund.

Nursing Student Loan Fund (SHARE Fund #21600 Dept. #3400) – The Nursing Student Loan Fund was created to increase the supply of qualified nurses in certain rural areas of the State (21-22B, NMSA 1978). Per Section 21-22B-8, money appropriated to the fund is non-reverting to the State General Fund.

Loans are provided to students, upon such terms and conditions as may be imposed by regulations of the Department, to defray the expenses of nursing education programs. The act provides for the forgiveness of a portion of the principal and interest for each year that a loan recipient practices nursing in areas approved by the Health Professions Advisory Committee.

MAJOR GOVERNMENT FUNDS

Osteopathic Student Loan Fund (SHARE Fund #21600 Dept. #3500) – The Osteopathic Student Loan Fund was created to meet the existing emergency resulting from the shortage of osteopathic medical doctors in the less populated areas of the State by increasing the number of practitioners in rural areas through a program of loans for osteopathic medical students (21-22A, NMSA 1978). Per Section 21-22A-8, money appropriated to the fund is non-reverting to the State General Fund.

The Department is authorized to grant loans to defray expenses of the osteopathic medical education of students deemed qualified by the Department to receive the same, upon such terms and conditions as may be imposed by regulations of the Department. The act also provides for the forgiveness of one year of the principal amount of the loan together with interest for each year that the student practices his profession as a licensed osteopathic physician in areas designated by the Health Professions Advisory Committee as not being adequately served by osteopathic medical practitioners.

Teacher Loan for Service Program (SHARE Fund #21600 Dept. #3600) – The purpose of the New Mexico Teacher Loan for Service Act is to proactively address New Mexico's looming teacher shortage by providing students with the financial means to complete or enhance their post-secondary teacher preparation education.

The program provides for the state to forgive a portion of the principle and interest for each year that a student serves in a designated shortage area. (Section 21-22E through 21-22E-10) (NMSA 1978) Money appropriated to the fund is non-reverting to the State General Fund.

Health Profession Loan Repayment Program (SHARE Fund #21600 Dept. #3700 and #3800) – The State and Federal Health Professional Education Loan Repayment Programs are incentive programs designed to improve the recruitment and retention of primary medical care providers in under-served portions of New Mexico. Awards will be made to primary medical care providers serving in designated under-served areas, with priority given to providers located at community-based primary care centers. Awards must be used to pay for an individual's medical student loans. Medical care personnel eligible for loan repayment awards include physicians (both MD and DO), nurse practitioners, nurse midwives, physician's assistants, and allied health service professionals. (21-22D, NMSA 1978). Per Section 21-22D-8, money appropriated to the fund is non-reverting to the State General Fund.

Graduate Fellowship Fund (SHARE Fund #21600 Dept. #3900) – This fellowship program was established by the Legislature to increase enrollment in graduate education. Fellows receive an award of \$600 per month up to 12 months per year (21-21G, NMSA 1978). Per Section 21-21G-9, money appropriated to the fund is non-reverting to the State General Fund.

Endowed Merit Scholars (SHARE Fund #21600 Dept. #4000) – The amount earned on the investment of the Legislative Endowment Scholarship Fund (SHARE Fund #88100) is expended from this sub-fund to provide legislative endowment scholarships to students at public post-secondary educational institutions pursuant to the Legislative Endowment Scholarship Act. The monies to cover these expenditures are transferred from the Endowed Merit Scholars Fund (SHARE Fund #88). Per Section 21-21J-8, money appropriated to the fund is non-reverting to the State General Fund.

Work Study Program Fund (SHARE Fund #21600 Dept. #4100) – The Work Study Program Fund was created to provide a work study program for students at post-secondary educational institutions. Appropriations have been provided to the Department for the purpose of carrying out the provisions of the Work Study Act. At least one-third of the awards are to be made to needy resident students, and the Work Study Act provides that the employer pay at least 20% of the wages (21-21B, NMSA 1978). Per Section 21-21B-4, money appropriated to the fund is non-reverting to the State General Fund.

New Mexico Scholars (SHARE Fund #21600 Dept. #4200) – The purposes of this act is to encourage New Mexico students to attend college in New Mexico. The scholarships shall be in an amount sufficient to pay for tuitions, fees, and books for an academic year, for a period not to exceed four years (21-21H, NMSA 1978). Per Section 21-21H-9, money appropriated to the fund is non-reverting to the State General Fund.

MAJOR GOVERNMENT FUNDS

Student Choice Grants Fund (SHARE Fund #21600 Dept. #4400) – The Student Choice Fund was created to account for transactions related to the “Student Choice Act” which is to broaden student choice and make available state funds to students attending not-for-profit independent institutions of higher education (21-21C, NMSA 1978). Per Section 21-21C-9, money appropriated to the fund is non-reverting to the State General Fund.

State Student Incentive Grants Fund (SHARE Fund #21600 Dept. #4500) – The State Student Incentive Program Fund accounts for the transactions of the State Student Incentive Grant Program. Federal matching monies are provided through the United States Department of Health, Education and Welfare under the authority of Title IV, Part A, Subpart 3 of the Higher Education Act of 1965, as amended. Monies in this fund are used to provide initial and continuation student grants to undergraduates with substantial financial need for attendance at public and private post-secondary education institutions based upon criteria adopted by the Department. The Department is required to report this program as a separate fund by federal contract. Money in the fund shall not revert to the State General Fund.

Vietnam Veteran's Scholarship Fund (SHARE Fund #21600 Dept. #4700) – The Vietnam Veteran's Scholarship Fund was established to reimburse educational institutions for tuition payments for Vietnam Veteran undergraduates and master degree post-secondary students for tuition and fee costs on a “first come, first served” basis (21-21E, NMSA 1978). Per Section 21-21E-1, money appropriated to the fund is non-reverting to the State General Fund.

Lottery Tuition (SHARE Fund #21600 Dept. #4800) – The amount transferred from the Lottery Tuition Fund (SHARE Fund #637) is expended for tuition assistance for qualifying New Mexico resident undergraduate students pursuant to Sections 21-1-4.3 and 21-1-4.4 NMSA 1978). Per Section 21-1-4.4, money appropriated to the fund is non-reverting to the State General Fund.

WICHE (SHARE Fund #21600 Dept. #4900) – The purpose of this fund is to provide monies for loans to students participating in the student exchange program of the Western Interstate Commission of Higher Education (21-29-1 to 21-29-6 NMSA 1978). Per Section 21-29-5, money appropriated to the fund is non-reverting to the State General Fund.

Dentistry (SHARE Fund #21600 Dept. #5000) – The purpose of this fund is to provide monies for loans. The Baylor School of Medicine holds a contract with the State of New Mexico to educate not more than six students in the field of dentistry. This contract is managed by the WICHE program and is subject to the same contract specifications as the WICHE exchange schools. Per Section 21-29-5, money appropriated to the fund is non-reverting to the State General Fund.

PSL Loan Repayment (SHARE Fund #21600 Dept #7000) – The purpose of the Public Service Law Loan Repayment Act [21-22F-1 NMSA 1978] is to improve access to the justice system in New Mexico by increasing the number of attorneys in public service employment through a legal education loan repayment program.

PSL Loan Repayment (SHARE Fund #21600 Dept #7000) – The purpose of the Public Service Law Loan Repayment Act [21-22F-1 NMSA 1978] is to improve access to the justice system in New Mexico by increasing the number of attorneys in public service employment through a legal education loan repayment program.

Merit Based Scholarships Fund (SHARE Fund 21600 Dept #0000) – This fund accounts for Merit Scholarships which are funded by the Endowed Merit Scholars Private Trust Fund.

CHE Institution Compensation Distribution (SHARE Fund #27100) – The purpose of this fund is to record the monies appropriated to the Higher Education Department per Laws of 2007, Section 8 Item 1 and 2 for expenditure in fiscal year 2008 to provided faculty and other staff of four-year post secondary educational institutions with a salary increase effective the firs full pay period after July 1, 2007. Any unexpended balance remaining at the end of fiscal year 2008 shall revert to the State General Fund.

MAJOR GOVERNMENT FUNDS

Lottery Tuition Fund (SHARE Fund # 63700) – The purpose of this fund is to provide monies for distribution to New Mexico’s public college educational institutions to provide tuition assistance for New Mexico’s resident undergraduates (6-24-23 NMSA 1978) Net receipts from the New Mexico Lottery Authority are deposited in this fund and then transferred to the Lottery Tuition (SHARE Fund #216, Dept. #4800) for expenditure pursuant to Sections 21-1-4.4 NMSA 1978. Money appropriated to the fund is non-reverting to the State General Fund.

Capital Projects (SHARE Fund #64400) – The purpose of this fund is to account for capital project appropriations made to the Department for post-secondary educational institutions and special schools. Monies include General Fund appropriations, general obligation bonds, and severance tax bonds. This fund has a multiple-year budget and is not included in the Combined Statement of Revenues and Expenditures – Budget and Actual – General and Single-Year Budget Special Revenue Funds. Multiple year appropriation budgetary comparison for this fund is presented as Additional Information – Supporting Schedules. Funds not utilized are adjusted from the original budget.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET
MAJOR GOVERNMENT FUNDS
ALL FINANCIAL AID PROGRAMS – GOVERNMENT FUNDS
JUNE 30, 2008**

	Allied Health Services Student Loan	Medical Student Loan	Minority Doctoral Assistance Loan	Nursing Student Loan	Osteopathic Student Loan
Assets					
Interest in SGFIP	\$ 177,120	\$ 951,286	\$ 509,541	\$ 484,661	\$ 441,541
Due from Interfund	933	25,547	500	12,416	7,700
Due from other agencies	-	-	-	-	-
Due from federal government	-	-	-	-	-
Loan & Interest receivable, (net of allowance for doubtful accounts)	541,801	2,419,063	1,095,686	1,513,169	662,167
Total assets	<u>\$ 719,854</u>	<u>\$ 3,395,896</u>	<u>\$ 1,605,727</u>	<u>\$ 2,010,246</u>	<u>\$ 1,111,408</u>
Liabilities and Fund balance					
Account Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Interfund	100,000				
Due to federal government	-	-	-	-	-
Fund balance	619,854	3,395,896	1,605,727	2,010,246	1,111,408
Total Liabilities and Fund balance	<u>\$ 719,854</u>	<u>\$ 3,395,896</u>	<u>\$ 1,605,727</u>	<u>\$ 2,010,246</u>	<u>\$ 1,111,408</u>

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

Southeastern NM/Teachers/ Teacher Quality Loan	Professional Loan Repayment Program	Graduate Fellowship	Legislative Endowment	Work Study Program	New Mexico Scholars
\$ 620,643	\$ 195,941	\$ 520,919	\$ (20,701)	\$ 181,854	\$ 155,149
3,126	-	-	182,680	-	-
-	-	-	-	-	-
-	77,568	-	-	-	-
729,939	-	-	-	-	-
<u>\$ 1,353,708</u>	<u>273,509</u>	<u>\$ 520,919</u>	<u>\$ 161,979</u>	<u>\$ 181,854</u>	<u>\$ 155,149</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
1,353,708	273,509	520,919	161,979	181,854	155,149
<u>\$ 1,353,708</u>	<u>273,509</u>	<u>\$ 520,919</u>	<u>\$ 161,979</u>	<u>\$ 181,854</u>	<u>\$ 155,149</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET
MAJOR GOVERNMENT FUNDS
ALL FINANCIAL AID PROGRAMS – GOVERNMENT FUNDS
JUNE 30, 2008**

	Student Choice Grants	State Student Incentive Grants	Vietnam Veteran's Scholarship	WICHE	Dentistry
Assets					
Interest in SGFIP	\$ 1,871	\$ 305,964	\$ 12,252	\$ 1,551,665	\$ 57,327
Due from Interfund	-	17,728	-	-	-
Due from other agencies	-	-	-	-	-
Loan & Interest receivable, (net of allowance for doubtful accounts)	-	-	-	10,547,687	138,386
Total assets	\$ 1,871	\$ 323,692	\$ 12,252	\$ 12,099,352	\$ 195,713
Liabilities and Fund balance					
Account Payable	-	-	-	-	-
Due to Interfund	-	6,886	-	-	-
Fund balance	1,871	316,806	12,252	12,099,352	195,713
Total Liabilities and Fund balance	\$ 1,871	\$ 323,692	\$ 12,252	\$ 12,099,352	\$ 195,713

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

Lottery Tuition	PSL Repayment Loan	Merit Based Scholarships	Total Financial Aid Programs
\$ 9,010	\$ 118,287	\$ 50,000	\$ 6,324,330
-	-	-	250,630
-	-	-	-
-	-	-	77,568
-	-	-	-
-	-	-	17,647,898
<u>\$ 9,010</u>	<u>\$ 118,287</u>	<u>\$ 50,000</u>	<u>\$ 24,300,426</u>
\$ -	\$ 2,350	\$ -	\$ 2,350
-	-	-	100,000
-	-	-	6,886
9,010	115,937	50,000	24,191,190
<u>\$ 9,010</u>	<u>\$ 118,287</u>	<u>\$ 50,000</u>	<u>\$ 24,300,426</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR GOVERNMENT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL FINANCIAL AID PROGRAMS – GOVERNMENT FUNDS
YEAR ENDED JUNE 30, 2008**

	Allied Health Services Student Loan	Medical Student Loan	Minority Doctoral Assistance Loan	Nursing Student Loan	Osteopathic Student Loan
Revenues:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on investment	298	-	-	102	2,359
Interest on loans	33,581	210,398	51,471	71,988	59,331
Total revenues	<u>33,879</u>	<u>210,398</u>	<u>51,471</u>	<u>72,090</u>	<u>61,690</u>
Expenditures:					
General government:					
Other costs	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>33,879</u>	<u>210,398</u>	<u>51,471</u>	<u>72,090</u>	<u>61,690</u>
Total other financing sources (uses):					
Other financing sources	-	-	-	-	-
State General Fund appropriation	108,000	83,000	132,000	350,000	-
Other financing (uses)	(126,000)	(60,000)	(180,000)	(208,500)	-
Bad debt provision	-	(95,468)	-	-	(25,988)
Loans forgiven - principle	(64,339)	(398,109)	(91,102)	(103,994)	(43,584)
Loans forgiven - interest	-	(269,669)	(24,098)	-	(12,458)
Grant to Organizations	(15,000)	-	-	(175,600)	-
Total other financing sources (uses)	<u>(97,339)</u>	<u>(740,246)</u>	<u>(163,200)</u>	<u>(138,094)</u>	<u>(82,030)</u>
Net change in fund balances	(63,460)	(529,848)	(111,729)	(66,004)	(20,340)
Fund balance, beginning of period	<u>683,314</u>	<u>3,925,744</u>	<u>1,717,456</u>	<u>2,076,250</u>	<u>1,131,748</u>
Fund balance, end of period	<u>\$ 619,854</u>	<u>\$ 3,395,896</u>	<u>\$ 1,605,727</u>	<u>\$ 2,010,246</u>	<u>\$ 1,111,408</u>

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

Southeastern NM/Teachers/ Teacher Quality Loan	Health Professional Loan Repayment Program	Graduate Fellowship	Legislative Endowment	Work Study Program	New Mexico Scholars
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
64	-	-	-	-	-
30,082	-	-	-	-	-
<u>30,146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	15,500	-	-	-	-
-	<u>15,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>30,146</u>	<u>(15,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
250,000	416,700	619,200	-	5,739,600	1,000,000
(83,450)	-	(638,338)	2,127	(1,909,742)	(822,024)
-	-	-	-	-	-
(75,837)	-	-	-	-	-
-	-	-	-	-	-
(55,700)	(462,556)	-	-	(3,682,258)	(11,175)
<u>35,013</u>	<u>(45,856)</u>	<u>(19,138)</u>	<u>2,127</u>	<u>147,600</u>	<u>166,801</u>
65,159	(61,356)	(19,138)	2,127	147,600	166,801
<u>1,288,549</u>	<u>334,865</u>	<u>540,057</u>	<u>159,852</u>	<u>34,254</u>	<u>(11,652)</u>
<u>\$ 1,353,708</u>	<u>\$ 273,509</u>	<u>\$ 520,919</u>	<u>\$ 161,979</u>	<u>\$ 181,854</u>	<u>\$ 155,149</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR GOVERNMENT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL FINANCIAL AID PROGRAMS – GOVERNMENT FUNDS
YEAR ENDED JUNE 30, 2008**

	Student Choice Grants	State Student Incentive Grants	Vietnam Veteran's Scholarship	WICHE	Dentistry
Revenues:					
Federal sources	\$ -	\$ 202,976	\$ -	\$ -	\$ -
Interest on investment	-	300,546	-	95	-
Interest on loans	-	-	-	356,180	4,628
Total revenues	-	503,522	-	356,275	4,628
Expenditures:					
General government:					
Other costs	-	-	-	-	-
Total expenditures	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	503,522	-	356,275	4,628
Total other financing sources (uses):					
Other financing sources	-	-	-	-	-
State General Fund appropriation	1,004,700	12,052,300	92,000	1,947,400	32,400
Other financing sources (uses)	-	(7,981,713)	(75,473)	-	-
Bad debt provision	-	-	-	-	-
Loans forgiven - principle	-	-	-	(854,574)	(10,500)
Loans forgiven - interest	-	-	-	-	(346)
Grant to Organizations	(1,005,700)	(4,436,770)	(31,113)	(2,070,834)	(43,200)
Total other financing sources (uses)	(1,000)	(366,183)	(14,586)	(978,008)	(21,646)
Net change in fund balances	(1,000)	137,339	(14,586)	(621,733)	(17,018)
Fund balance, beginning of period	2,871	179,467	26,838	12,721,085	212,731
Fund balance, end of period	\$ 1,871	\$ 316,806	\$ 12,252	\$ 12,099,352	\$ 195,713

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

Lottery Tuition	PSL Repayment Loan	Merit Based Scholarships	Total Financial Aid Programs
\$ -	\$ -	\$ -	\$ 202,976
-	-	-	303,464
-	-	-	817,659
-	-	-	1,324,099
-	-	-	15,500
-	-	-	15,500
-	-	-	1,308,599
9,010	-	-	9,010
-	299,700	50,000	24,177,000
-	-	-	(12,083,113)
-	-	-	(121,456)
-	-	-	(1,642,039)
-	-	-	(306,571)
-	(158,290)	-	(12,148,196)
9,010	141,410	50,000	(2,115,365)
9,010	141,410	50,000	(806,766)
-	(25,473)	-	24,997,956
\$ 9,010	\$ 115,937	\$ 50,000	\$ 24,191,190

NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

College Affordability Scholarship (SHARE Fund #21700) – The purpose of this fund is created in the state treasury. The fund consists of appropriations, gifts, grants, donations and income from investment of its fund. The fund shall be administered by the Department for distributions to public, post-secondary educational institutions that meet or exceed performance targets for freshmen enrollment and persistence and graduation rates, including minority student. Per Section 21-1-27-3, money appropriated to the fund is non-reverting to the State General Fund.

College Goal Sunday Grant (SHARE Fund #29200) – The purpose of this fund is to provide capital to the Navajo Community College at Crownpoint and also to provide post-secondary education institutions with capital for ADA facilities improvements, instructional equipment and handicap access. The funds are provided by general obligation and severance tax bonds. This fund has a multiple year budget and is not included in the Combined Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – General and Single-Year Budget Special Revenue Funds. Multiple year appropriation comparison for this fund is presented as Additional Information – Supporting Schedules. Funds not utilized are adjusted from the original budget.

Post-Secondary Education Institution Fund (SHARE Fund #34400) – The Post-Secondary Education Institution Fund was created to improve the quality of post-secondary education and to prevent misrepresentation, fraud and collusion in offering educational programs to persons over the compulsory school attendance age. The Department certifies applicable institutions upon evidence of compliance with the rules and regulations of the Act (21-23, NMSA 1978). Per Section 21-23-8, money appropriated to the fund is non-reverting to the State General Fund.

Endowed Faculty Fund (SHARE Fund #47900) – The purpose of this fund is to account for monies received from appropriations, income from investment of the fund, gifts, grants, donations and bequests. Money in the fund shall not revert at the end of any fiscal year per Section 21-1-27.1, NMSA 1978. The funds shall be disbursed only to established endowments for chairs, professorships, and faculty development programs at four-year public post-secondary educational institutions.

Higher Education Performance Fund (SHARE Fund # 54500) – This fund is created in the state treasury per Section 21-1-27.3, NMSA 2006 HB, Section 5. The fund consists of appropriation, gifts, grants, donations and income from investment. Money in the fund shall not revert to any other fund. The fund shall be administered by the Department and money in the fund is appropriated to the Department for distributions to public post-secondary education institutions that met its performance standards in the preceding year.

Program Development Enhancement Fund (SHARE Fund #78200) – The purpose of this fund is to distribute appropriations to various institutions to expand nursing and other high priority programs. Per Section 21-1-27.4, NMSA 1978, money appropriated to the fund is non-reverting to the State General Fund.

Endowed Merit Scholars (SHARE Fund #88100) – The purpose of this fund is to record monies earned on the investment of the Legislative Endowment Scholarship Fund. This amount is for the purpose of providing legislative endowment scholarships to students at public post-secondary educational institutions pursuant to the Legislative Endowment Scholarship Act. The monies earned and recorded in this fund are transferred to the Endowed Merit Scholars (SHARE Fund #21600, Dept. 4000) for expenditures pursuant to the Legislative Endowment Scholarship Act. Interest earned on the State Student Incentive Grant Account is also deposited to this fund to be used to cover any shortfall in financial aid programs (21-215-1 to 21-215-8, NMSA 1978). Money appropriated to the fund is non-reverting to the State General Fund.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR FUNDS
JUNE 30, 2008**

	College Affordability Scholarship	College Goal Sunday Grant	Post-Secondary Educational Institution	Faculty Endowment	Performance Fund	Development Enhancement	Endowed Merit Scholarships	Total Other Funds
Assets								
Investment	\$ -	\$ 8,332	\$ 136,601	\$ 7,814,515	\$ 2,813,475	\$ 151,965	\$ 794,526	\$ 11,719,414
Due from other funds	-	-	104,665	-	-	-	-	104,665
Due From Other Agencies	2,001,354	-	-	20,773	14,139	328	17,278	2,053,872
Total assets	\$ 2,001,354	\$ 8,332	\$ 241,266	\$ 7,835,288	\$ 2,827,614	\$ 152,293	\$ 811,804	\$ 13,877,951
Liabilities and Fund Balances								
Liabilities:								
Account Payable	\$ -	\$ -	\$ -	\$ 521,603	\$ -	\$ -	\$ -	\$ 521,603
Cash overdraft	1,208,907	-	-	-	-	-	-	1,208,907
Due to other agencies	-	-	-	-	-	-	-	-
Due to other funds	-	-	248	-	-	-	22,828	23,076
Deferred revenue	-	7,574	9,192	-	-	-	-	16,766
Total liabilities	1,208,907	7,574	9,440	521,603	-	-	22,828	1,770,352
Fund Balance:								
Reserved for:								
Secondary Educational	792,447	758	231,826	-	-	-	-	1,025,031
Faculty Endowment	-	-	-	7,313,685	-	-	-	7,313,685
Performance Development	-	-	-	-	2,827,614	152,293	-	2,979,907
Scholarships	-	-	-	-	-	-	788,976	788,976
Total fund balance	792,447	758	231,826	7,313,685	2,827,614	152,293	788,976	12,107,599
Total liabilities and fund balance	\$ 2,001,354	\$ 8,332	\$ 241,266	\$ 7,835,288	\$ 2,827,614	\$ 152,293	\$ 811,804	\$ 13,877,951

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES – NON-MAJOR FUNDS
JUNE 30, 2008**

	College Affordability Scholarship	College Goal Sunday Grant	Post-Secondary Educational Institution	Faculty Endowment	Performance Fund	Development Enhancement	Endowed Merit Scholarships	Total Other Funds
Revenues:								
Licenses, permits and fees	\$ -	\$ -	\$ 10,899	\$ -	\$ -	\$ -	\$ -	\$ 10,899
Interest on investments	37,345	317	-	318,063	124,156	47,765	130,446	658,092
Other	-	-	-	-	-	-	-	-
Total revenues	37,345	317	10,899	318,063	124,156	47,765	130,446	668,991
Expenditures:								
Current:								
Other	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	37,345	317	10,899	318,063	124,156	47,765	130,446	668,991
Other financing sources (uses):								
State General Fund appropriations	-	-	-	17,600,000	-	3,500,000	-	21,100,000
Other financing sources	2,000,000	-	86,567	-	-	-	-	2,086,567
Other financing (uses)	(2,828,287)	-	-	(11,273,903)	-	(3,532,000)	-	(17,634,190)
Total other financing sources (uses)	(828,287)	-	86,567	6,326,097	-	(32,000)	-	5,552,377
Net change in fund balances	(790,942)	317	97,466	6,644,160	124,156	15,765	130,446	6,221,368
Fund balance, beginning of period	1,583,389	441	134,360	669,525	2,703,458	136,528	658,530	5,886,231
Fund balance, end of period	\$ 792,447	\$ 758	\$ 231,826	\$ 7,313,685	\$ 2,827,614	\$ 152,293	\$ 788,976	\$ 12,107,599

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
COLLEGE AFFORDABILITY SCHOLARSHIP (FUND 21700)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 37,345	\$ 37,345
Total revenues	-	-	37,345	37,345
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	37,345	37,345
Other financing sources (uses):				
Other financing sources	-	2,000,000	2,000,000	-
Prior year cash rebudgeted	-	-	-	-
Other financing uses	-	(2,828,287)	(2,828,287)	-
Net change in fund balance	\$ -	\$ (828,287)	\$ (790,942)	\$ 37,345

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
COLLEGE GOAL SUNDAY GRANT (FUND 29200)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 317	\$ 317
Total revenues	-	-	317	317
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	317	317
Other financing sources (uses):				
Other financing sources	-	-	-	-
State General Fund appropriations	-	-	-	-
Other financing uses	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 317	\$ 317

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
POST-SECONDARY EDUCATIONAL INSTITUTIONAL FUND (FUND 34400)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Other licenses	\$ -	\$ -	\$ 10,899	\$ 10,899
Total revenues	-	-	10,899	10,899
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	10,899	10,899
Other financing sources (uses):				
Other financing sources	-	-	86,567	86,567
Other financing uses	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 97,466	\$ 97,466

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
FACULTY ENDOWMENT FUND (FUND 47900)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 318,063	\$ 318,063
Total revenues	-	-	318,063	318,063
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	318,063	318,063
Other financing sources (uses):				
State General Fund appropriations	-	17,600,000	17,600,000	-
Other financing uses	-	(17,600,000)	(11,273,903)	6,326,097
Net change in fund balance	\$ -	\$ -	\$ 6,644,160	\$ 6,644,160

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
HIGHER EDUCATION PERFORMANCE (FUND 54500)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 124,156	\$ 124,156
Total revenues	-	-	124,156	124,156
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	124,156	124,156
Other financing sources (uses):				
State General Fund appropriations	-	-	-	-
Other financing uses	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 124,156	\$ 124,156

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
PROGRAM DEVELOPMENT ENHANCEMENT (FUND 78200)
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 47,765	\$ 47,765
Total revenues	-	-	47,765	47,765
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	47,765	47,765
Other financing sources (uses):				
State General Fund appropriations	-	3,500,000	3,500,000	-
Other financing uses	-	(3,500,000)	(3,532,000)	(32,000)
Net change in fund balance	\$ -	\$ -	\$ 15,765	\$ 15,765

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
ENDOWED MERIT SCHOLARSHIP FUND (FUND 88100)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Modified Accrual Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Interest on investments	\$ -	\$ -	\$ 130,446	\$ 130,446
Total revenues	-	-	130,446	130,446
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	130,446	130,446
Other financing sources (uses):				
Other financing uses	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,446</u>	<u>\$ 130,446</u>

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF CAPITAL PROJECTS
YEAR ENDED 30, 2008**

Project	Group	Approp. ID	Amount Sold	Amount Draw	Amount AIPP	Balance Held	SHARE #
						by State Board of Finance June 30, 2008	Capital Project Fund
Statewide Higher Ed Inf Tech	GOB05	04-0093	\$ 4,410,000	\$ (4,190,739)	\$ -	\$ 219,261	64400
Statewide Higher Ed Health/Safety Impr	GOB05	04-0095	1,789,548	(1,330,710)	-	458,838	64400
NMHU Science Bldg & Annex Renovate	GOB05	04-0111	3,000,000	(983,063)	(30,000)	1,986,937	64400
NMHU Infra Renovate/Expansion	GOB05	04-0112	400,000	(395,000)	-	5,000	64400
NMHU Dorms Impr	GOB05	04-0113	2,500,000	(1,881,183)	(25,000)	593,817	64400
NMIMT Kelly & Jones Hall Renovate	GOB05	04-0114	3,500,000	(603,861)	(35,000)	2,861,139	64400
NMSD Health/Safety/Access Impr	GOB05	04-0121	190,000	-	-	190,000	64400
NMSU East Mesa Ctr-Phase 3	GOB05	04-0125	3,500,000	(3,428,800)	(35,000)	36,200	64400
NMSU-Alamogordo Infra Renovate/Expand	GOB05	04-0129	280,000	(274,809)	-	5,191	64400
NNMSS Automotive Tech Bldg. - Espanola	GOB05	04-0131	600,000	(362,344)	(6,000)	231,656	64400
NNMSS Infra Renovate/Expand - Espanola	GOB05	04-0132	260,000	(247,625)	-	12,375	64400
UNM Core Bldg. Renovate	GOB05	04-0137	3,000,000	(2,950,365)	-	49,635	64400
UNM Health Sci Ctr Anatomy Lab	GOB05	04-0138	8,000,000	(1,469,377)	(80,000)	6,450,623	64400
UNM-Los Alamos Maint. Plan Op Bldg.	GOB05	04-0142	350,000	-	(3,500)	346,500	64400
*06 NM State Academic Library Resource Acq.	GOB05	04-0150	3,888,000	(3,789,914)	-	98,086	64400
Academic Library Acquisitions Statewide	GOB07	06-2284	3,000,000	(837,466)	-	2,162,534	64400
ATVI Classroom/Tech Bldg.	GOB07	06-2378	11,300,000	(177,382)	(113,000)	11,009,618	64400
CCC Allied Health Ctr.	GOB07	06-2379	3,000,000	-	(30,000)	2,970,000	64400
Luna CMTY College Ed. Bldg.	GOB07	06-2380	2,000,000	-	(20,000)	1,980,000	64400
MCC Academic Bldg.	GOB07	06-2381	1,500,000	-	(15,000)	1,485,000	64400
NMJC Cowboy Hall of Fame Remodel	GOB07	06-2382	245,000	-	(2,450)	242,550	64400
NMJC Testing Ctr. Remodel	GOB07	06-2383	1,000,000	-	(10,000)	990,000	64400
SJC Outdoor Learning Ctr. Impr.	GOB07	06-2384	800,000	-	(8,000)	792,000	64400
SFCC Allied Health & Sci Bldg.	GOB07	06-2385	3,000,000	-	(30,000)	2,970,000	64400
Luna CMTY College Santa Rose Equip.	POOL06	06-0650	200,000	(153,304)	-	46,696	64400
SJC Learning Comos Plaza Construction	POOL06	06-0652	1,200,000	-	-	1,200,000	64400
MCC NA Wind Research & Training Ctr. Cons.	STB07A	07-3785	1,600,000	(93,663)	(16,000)	1,490,337	64400
SJC Trades & Tech Bldg.	STB07SD	07-3786	1,340,000	-	(13,400)	1,326,600	64400
SFCC Health & Science Bldg.	STB07SD	07-3787	1,000,000	-	(10,000)	990,000	64400
NMJC Central Plant Upgrades	STB08A-1	08-3314	1,500,000	-	-	1,500,000	64400
SJC Health Sci Sim & Teaching Ctr.	STB08A-1	08-3315	587,000	-	-	587,000	64400
SJC Outdoor Learning Ctr. Impr.	STB08A-1	08-3316	275,000	-	-	275,000	64400
LCC Satellite Construction	STB08A-1	08-3317	250,000	-	-	250,000	64400
Total			\$ 69,464,548	\$ (23,169,605)	\$ (482,350)	\$ 45,812,593	

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

Federal Grantor/Agency- Grantor/Program Title	Federal CFDA #	Grant Number or Pass-Through Number	Total Federal Award	Total Federal Award Expenditure	
<u>U.S. Dept. of Education:</u>					
Adult Basic Education Program	Major Program	84.002A	V002A070031	\$ 3,693,111	\$ 2,573,864
Adult Basic Education Program	Major Program	84.002A	V002A060031	\$ 3,698,116	821,449
Gaining Early Awareness and Reading for Undergraduates Program (GEAR-UP)	Major Program	84.334A	P334S060009-02	\$ 3,000,000	776,293
	Major Program	84.334A	P334S060009-01	\$ 3,000,000	1,593,472
No Child Left Behind (NCLB)	Major Program	84.367B	S367B050028A	\$ 605,001	69,782
	Major Program	84.367B	S367B040028A	\$ 622,229	552,652
Student Incentive 06 - LEAP Program		84.069A	N069A050032	\$ 152,631	76,315
Student Incentive 06 - SLEAP Program		84.069B	N069B050018	\$ 253,321	126,661
<u>U.S. Dept. of Health and Human Services:</u>					
Behavioral Health (pass through)		93.243	U79SM57464-03	\$ 300,000	211,050
				<u>\$</u>	<u>6,801,538</u>
Reconciliation:					
General Fund Federal Sources				\$	6,598,562
Financial Aid Federal Sources					202,976
Total				<u>\$</u>	<u>6,801,538</u>

Note: The schedule of expenditures of Federal Awards is prepared on the accrual basis of accounting.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Non-Cash Assistance

The Department did not receive any federal awards in the form of non-cash assistance during the year.

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**INDEPENDENT AUDITORS' 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**

Dr. Peter White, Cabinet Secretary
State of New Mexico
Higher Education Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparison statements of the general fund and major special revenue funds, and the aggregated remaining fund information of the State of New Mexico, Higher Education Department (Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements and have issued our report thereon dated June 17, 2009. We have also audited the financial statements of each of the Department's non-major governmental funds presented in the accompanying combining and individual fund financial statements and the budgetary comparison statements as of and for the year ended June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential would not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2006-1 and 2008-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

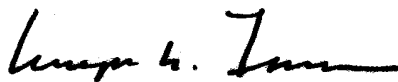
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2006-4.

We noted certain matters that are required to be reported under *Government Auditing Standard* January 2007 Revision paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedules of findings and questioned costs as items 2006-4, 2008-2, 2008-3, and 2008-4.

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

This report is intended solely for the information and use of the Department's management, members of the New Mexico Education Trust Board, Office of the State Auditor, New Mexico Department of Finance and Administration, the legislative body of the State of New Mexico, federal awarding agencies, and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.



Gwen K. Farner, CPA

June 17, 2009

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Dr. Peter White, Cabinet Secretary
State of New Mexico
Higher Education Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the State of New Mexico, Higher Education Department (Department) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

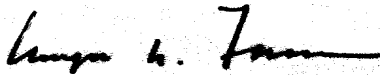
Internal Control Over Compliance

The management of Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Department's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

This report is intended solely for the information and use of the Department's management, members of the New Mexico Education Trust Board, Office of the State Auditor, New Mexico Department of Finance and Administration, the legislative body of the State of New Mexico, federal awarding agencies, and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.



Gwen K. Farner, CPA

June 17, 2009

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (FEDERAL AWARD PROGRAMS)
YEAR ENDED JUNE 30, 2008**

I. SUMMARY OF AUDITS RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the State of New Mexico, Higher Education Department.
2. No significant deficiencies were disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*. None of the deficiencies are material weaknesses.
3. One instance of noncompliance material to the financial statements of the State of New Mexico, Higher Education Department which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.
4. Type of the auditors' report on compliance for the major federal award programs for the State of New Mexico, Higher Education Department expresses an unqualified opinion on all major federal programs.
5. Audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this schedule. However, the audit disclosed no audit findings relating to major programs that the auditors are required to report on.
6. The programs tested as major programs including the following:

CFDA Number	Name of Federal Program
84.002A	U.S. Department of Education – Adult Basic Education Program (ABE)
84.334A	U.S. Department of Education – Gaining Early Awareness and Reading for Undergraduates Program (GEAR-UP)
84.367B	U. S. Department of Education – No Child Left Behind (NCLB)

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The Higher Education Department qualified as a low-risk auditee.

II. FINDINGS – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

	Questioned Costs
U.S. Department of Education	None

III. STATUS OF PRIOR-YEAR AUDIT FINDINGS – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

IV. CURRENT-YEAR FINDINGS – FINDINGS AND QUESTIONED COST – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

I. PRIOR- YEAR AUDIT FINDINGS

- | | |
|--------|--|
| 2006-1 | General Ledger for Loan for Service programs was not being reconciled
(Repeated and modified) |
| 2006-4 | Failure to submit audit report on time
(Repeated) |
| 2007-1 | Lacking documentation of cash disbursement for Capital Project Fund
(Resolved) |
| 2007-2 | Improper transfer of vehicles titles to General Services Department (GSD)
(Resolved) |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

2006-1 General Ledger for Loan for Service programs was not being reconciled
(Repeated and modified)

Condition

Department did not perform periodic reconciliations of the SHARE General Ledger for the loan for service programs during fiscal year 2008, resulting in numerous discrepancies in the general ledger accounts which document the amount of cash disbursements to financial aid loan programs. Also, the Department did not reconcile the cash disbursement ledger with individual program expenditures to assure funding of each program was being drawn down on a regular basis and revenue was being recorded.

Criteria

Good accounting practices require periodic reconciliation of general ledger accounts and sub-ledger accounts.

Effect

Account balances are likely to be incorrect and/or incomplete.

Cause

Department staff did not reconcile any SHARE general ledger accounts on a monthly basis with the program-level accounts.

Recommendation

Department management should ensure all program managers are trained, have access, and regularly use the SHARE system to manage their programs finances.

Department Response

Department realized the need to reconcile the SHARE ledger to individual program expenditures accounts on a monthly basis. Staff of the financial aid division and budget and finance division will work together to identify reports that must be generated monthly and at year-end to conduct reconciliations between general ledger and the individual program expenditures and to assure reimbursement expenditures of each program are being drawn down on a regular basis with the support documentation of its expenditures.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

2006-4 Failure to submit audit report on time (Repeated)

Condition

The Department did not submit audit report on time for year ended June 30, 2008. Report was received by the Office of the State Auditor on June 30, 2009.

Criteria

SAO Rule 2.2.2.9 A.(1), (f), State agency reports are due no later than 60 days after the Financial control Division of the Department of Finance and Administration provides the State Auditor with notice that the agency's book and records are ready and available for audit. The Financial Control Division mandates that each agency, with the help of its independent auditor, identify a schedule of audit deliverables and agree to milestones for the audit to ensure that the agency's books and records are ready and available for audit and the auditor delivers services on time. The Sixty days to the audit deadline will be based on the schedule of deliverables and milestones; however, the deadline cannot extent beyond December 15. (Section 12-6-3 C, NMSA 1978)

Effect

An audit report not issued in a timely manner may adversely affect users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, etc. as they do not have timely audit reports and financial statements for their review. Late audit reports could have an adverse effect on state and federal funding and management decision making.

Cause

Department failed to ensure audit was completed, in accordance with bylaws and state law, because the Department's books and records were not ready and available for audit.

Recommendation

The Department needs to develop internal procedures which require on-time completion of annual audit.

Department Response

The Department is fully committed to comply with laws, regulations, and due dates. Since the beginning of the new fiscal year (FY07), staff has transitioned into the new state-wide accounting and human capital management system (SHARE) and has implemented procedures that will assure timely submission of the annual audit.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

II. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS

2008-1 Cash receipt deposits were improperly managed.

Condition

We tested 60 deposit transactions and found 14 transaction errors.

Eight transactions were incorrectly posted to account 290900 - Receipts Held in Suspense for a total of \$22,661.50, and for two of these eight we could not find support documentation.

We found two transactions totaling \$202,976 where money was wired from a revenue source, Federal grant (LEAP and SLEAP) programs, and were incorrectly posted to an expense account.

We also found four transactions totaling \$5,560,742 where money was wired from a revenue source, Federal grant for ABE, GEAR-UP, and NCLB programs, and were incorrectly posted and credited to a cash account; causing the Department's cash to be understated the SHARE system cash accounts.

Transactions found in error:

Unit	Journal ID	Date	Account	Dept	Fund	Amount	Line Description
95000	DJ00432586	8/21/2007	290900	1000000000	91000	\$ (6,886.25)	AR Direct Cash Journal
95000	DJ00437558	9/18/2007	290900	2040000000	91000	(363.85)	AR Direct Cash Journal
95000	DJ00474058	10/24/2007	290900	1000000000	91000	(1,626.53)	AR Direct Cash Journal
95000	DJ00504543	11/30/2007	290900		91000	(3,050.00)	AR Direct Cash Journal
95000	DJ00504544	12/3/2007	290900		91000	(1,114.00)	AR Direct Cash Journal
95000	DJ00568815	2/15/2008	290900		91000	(2,433.39)	AR Direct Cash Journal
95000	DJ00578749	2/26/2008	290900		91000	(3,187.48)	AR Direct Cash Journal
95000	DJ00446246	9/25/2007	290900	3600000000	21600	(4,000.00)	AR Direct Cash Journal
	Total					<u>\$ (22,661.50)</u>	
95000	DJ00462079	10/11/2007	547400	4500000000	21600	\$ (126,661.00)	AR Direct Cash Journal
95000	DJ00462079	10/11/2007	547400	4500000000	21600	(76,315.00)	AR Direct Cash Journal
	Total					<u>\$ (202,976.00)</u>	

Following transactions are posted Debit and Credit to different bank Chart of accounts:

95000	DJ00648461	6/4/2008	101900		91000	\$ 2,929,909.00	AR Direct Cash Journal
95000	DJ00648461	6/4/2008	101921	2010000000	91000	(2,929,909.00)	ABE FY06-07, Federal Grant
95000	DJ00486385	11/8/2007	101900		91000	767,538.88	AR Direct Cash Journal
95000	DJ00486385	11/8/2007	101921	2010000000	91000	(767,538.88)	ABE FY06-07, Federal Grant
95000	DJ00474058	10/24/2007	101900		91000	1,561,110.01	AR Direct Cash Journal
95000	DJ00474058	10/24/2007	101921	1050000000	91000	(1,561,110.01)	GEAR-UP Federal Grant
95000	DJ00490348	11/8/2007	101900		91000	302,184.00	AR Direct Cash Journal
95000	DJ00490348	11/8/2007	101921	1200000000	91000	(302,184.00)	NCLB, FY05-06 Federal Grant
	Total under stated cash on 91000 fund					<u>\$ (5,560,741.89)</u>	

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

Criteria

Cash control is part of sound accounting practices.

Effect

Improper posting can lead to misstated financial positions, which can adversely affect users of the financial information and management decision making

Cause

Lack of supervision - Deposit receipts were posted by staff to SHARE accounting system but Department management did not review or monitor transactions to ensure the data integrity.

Recommendation

Department management should establish sound cash management policies, ensuring cash deposits are posted to proper revenue accounts and necessary adjusting entries to its budget are made in order to use all available cash and balance its budget. Management should review the deposit ledger on regular basis to ensure the deposits are proper posted.

Department Response

Due to employee transitions and SHARE learning curve, the Department will implement check and balance procedures to train staff on proper handling of supporting documentation on a timely manner.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

2008-2 Proper supporting documents not retained for expenditures

Condition

Department did not retain proper supporting documentation for all expenditures. No information could be located for 3 of the 62 total items selected for testing.

Criteria

Section 6-5-8 NMSA 1978, "Vouchers", and Department of Finance and Administration (DFA) policy require that all payment vouchers for goods and services be accompanied by supporting invoices which are stamped or marked "paid" by the corresponding agency. Additionally, the agency head or designated employee is required to sign all payment vouchers and issue them sequentially. For reimbursements, the payee is required to sign the payment voucher to certify that the bill is correct and payment has not previously been received.

Effect

There is inadequate support for payments made by the Department. The Department may have made improper or duplicate payments. Payment vouchers believed to be unused may have been inadvertently issued.

Cause

The Department did not make certain that complete and accurate supporting documentation was attached to all payment vouchers.

Recommendation

We recommend that the Department be proactive in ensuring that supporting documentation is complete and adequate.

Department's Response

Due to employee transitions and SHARE learning curve, the Department will implement check and balance procedures to train staff on proper handling of supporting documentation on a timely manner.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

2008-3 Department failed to revert funds to State General Fund

Condition

For fiscal year 2008, Department should revert \$114,255 by September 30, 2008 to State General Fund or adjust the reversion within forty-five days of release of the audit report.

Criteria

According to 6-5-10 NMSA, State agency reversion; director powers; compliance with federal rules, Status Subsection A. states that except as provided in Subsections B and C of this section, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30 shall revert by September 30 to General Fund. The division may adjust the reversion within forty-five days of release of the audit report for that fiscal year. Subsection B. The director of the division may modify a reversion required pursuant to Subsection A of this section if the reversion would violate federal law or rules pertaining to supplanting of state funds with federal funds or other applicable federal provisions.

Effect

The Department is not in compliance with the State statute.

Cause

The Department's accounting system has failed to post all the reversion transactions, and the staff was not monitoring the amount of reversion effectively.

Recommendation

We recommend that the Department should reverse unused, unencumbered funds in accordance with State statute.

Department's Response

The department completed this reversion in June 2009.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (PERTAINING TO FINANCIAL STATEMENTS)
YEAR ENDED JUNE 30, 2008**

2008-4 Department's operating fund #91000 actual expenditures exceeded budgeted expenditures

Condition

For fiscal year 2008, Department's general fund #91000 actual expenditures exceeded approved budgeted by \$47,361,962

Criteria

According to SAO Rule 2.2.2.10.P (1) – The budgetary comparison presented in the financial statements must be at least at the same appropriation level as the approved budget to demonstrated compliances with legal requirement.

Effect

Budgetary controls are circumvented and not in compliance with final budget approved by Department of Finance Administration.

Cause

Department failed to reestablish FY-07 multi-year budget in FY-08.

Recommendation

We recommend that the Department should reverse unused, unencumbered funds in accordance with State statute.

Department's Response

The expenditures in this fund were consistent with statute. The Department failed to reestablish in the state financial tracking system (SHARE) in FY08 the multi-year budget that was set up in FY07 for Building Replacement and Renewal. When new financial management was installed in June 2008, a new practice was implemented whereby the Department routinely reestablishes multi-year budgets in SHARE at the beginning of each fiscal year.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OTHER DISCLOSURES
YEAR ENDED JUNE 30, 2008**

PREPARATION OF FINANCIAL STATEMENTS

The audited financial statements were prepared by the independent certified public accountant performing the audit.

Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance. Management has reviewed and approved the financial statements.

The Department has prepared the Management Discussion and Analysis.

EXIT CONFERENCE

An exit conference was held on June 17, 2009, to discuss the audit. The conference was held at the Department's office in Santa Fe, New Mexico. In attendance were:

State of New Mexico, Higher Education Department

Dr. Peter White, Cabinet Secretary

Dr. David Hadwiger, Director and Chief Financial Officer

Tino Pestalozzi, CPA, Director of Institutional Finance and Capital Projects Division

Tashina Banks Moore, Director of Financial Aid

LaVerne Ellerbe, Director of NM GEAR UP

Rick Scott, Director of P-20 Policy and Programs

Stephanie Lovato, Business Manager of Adult Basic Education

Audit Firm (Gwen K. Farner, CPA)

Gwen K. Farner, CPA

Merwin L. Valdez, Staff Accountant