



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

atkinson

PRECISE. PERSONAL. PROACTIVE.

INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OFFICIAL ROSTER
AS OF JUNE 30, 2010**

ADMINISTRATIVE OFFICIALS

<u>Name</u>	<u>Title</u>
Dr. Viola Florez	Cabinet Secretary
M. Tino Pestalozzi, CPA	Deputy Cabinet Secretary
David Hadwiger	Chief Financial Officer
Dr. Pam Etre-Perez	Director of Adult Basic Education Program
Amparo Juarez	Human Resources Director
Karen Kennedy	Financial Aid Director
Dr. Chandler Barrett	Director of GEAR-UP Program

FINANCIAL SECTION



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Dr. Jose Z. Garcia, 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, 2010, 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, 2010, 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.

Except as discussed in the fifth paragraph, 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 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, 2010, 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.

As discussed in Note 2. D, the financial statements of the Department do not include the New Mexico "Scholarsedge" or "The Education Plan" (Plans) of the New Mexico Education Trust Board. The Plans are administered by the New Mexico Education Trust Board, and the Department does not have any direct financial affairs related to the Plans; therefore, the financial statements of the Plans are not included in this audit, but are included in financial statements of the New Mexico Education Trust Board.

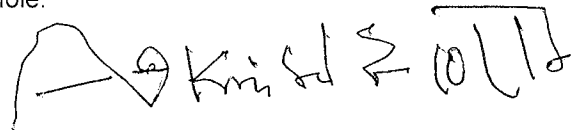
The Department's loan for service subsidiary records (student loans) are not reconciled to the State's books of records and are not currently maintained in all respects in relation to the new loans obtained, and for loan decreases arising from payments and completion of student service requirements. We did not obtain sufficient audit evidence to satisfy ourselves about the existence, accuracy, and completeness of these asset balances of \$17,528,287 and loans forgiven of \$4,383,978 due to the condition of the records.

In our opinion, except for the effects of such adjustments, if any, that might have been necessary had we been able to satisfy ourselves about loan for service balances and the corresponding loans forgiven (other expense) amounts reported in the financial statements, 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, 2010, 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, 2010, and the respective changes in financial position, thereof, and the respective budgetary comparisons for the non-major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 31, 2012, 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 xii, 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.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 31, 2012

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Introduction

The New Mexico Higher Education Department (Department) herewith presents its financial statements and required supplementary information for the year ended June 30, 2010. 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 as amended*. 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.

The Department manages four major funds, nine non-major funds, and two fiduciary funds with multiple revenue sources. 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 \$3.4 million 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 Governmental Accounting Standards Board (GASB) opinions.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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:

The Department's Condensed Net Assets changed from Fiscal Year 2009, decreasing from \$106 million to \$90 million, which represented an (-14.6) percent change. The table below illustrates the department condensed statement of net assets:

Detail of Department Condensed Net Assets as of June 30, 2010 and 2009 (thousands)

	<u>2010</u>	<u>Restated 2009</u>	<u>Change</u>
Assets:			
Current assets	\$ 84,436	\$ 168,066	\$ (83,630)
Non-current assets	17,608	19,291	(1,683)
Capital assets, net of accumulated depreciation	173	195	(22)
Total assets	<u>102,217</u>	<u>187,551</u>	<u>(85,334)</u>
Liabilities:			
Current liabilities	11,659	81,392	(69,733)
Compensated absences	136	335	(199)
Total liabilities	<u>11,795</u>	<u>81,727</u>	<u>(69,932)</u>
Total assets and liabilities	<u>90,422</u>	<u>105,824</u>	<u>(15,402)</u>
Net Assets:			
Investments in capital assets, net of debt	173	195	(22)
Restricted	90,385	106,029	(15,644)
Unrestricted	(136)	(400)	264
Total net assets	<u>\$ 90,422</u>	<u>\$ 105,824</u>	<u>\$ (15,402)</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Net assets for prior year 2009 have been restated for 1.) an adjustment for June 2009 lottery proceeds receivable and associated revenue, 2.) an adjustment for unused capital projects funded by State General Fund appropriations, 3.) an adjustment to recognize deferred revenue earned in a prior year, 4.) an adjustment to recognize grant revenue in proper period, 5.) an adjustment for underreported accounts receivable at June 30, 2009 for Adult Basic Education, 6.) an adjustment for underreported accounts receivable at June 30, 2009 for No Child Left Behind, 7.) a request to pay prior year 2009 account adjustment, and 8.) an adjustment to LEAP/SLEAP for underreported accounts receivable at June 30, 2009.

Discussion of Statement of Activities

Current accounting standards require that "functional" expenses of \$8 million and "program" revenues of \$11 million be segregated from "general" revenues and expenses. It should be noted that state General Fund appropriations consisted of \$51.1 million for program operations. The \$51.1 million for program operations has been distributed as 1.) \$26.1 million for Student Financial Aid programs, 2.) \$22 million for programs expenses, and 3.) \$3 million for performance development enhancement. Total program revenues increased from the previous year by \$2.4 million and functional expenses increased by \$.6 million.

General (Operating) Fund:

State General Fund appropriations to NMHED decreased \$18.9 million in fiscal year 2010 from fiscal year 2009. The decrease of funding was due to State Budget cuts. The New Mexico legislature reduced the NMHED fiscal year 2010 budget by 26.3 percent.

Capital Projects Fund:

Total capital project expenditures for other entities were \$35 million and \$51 million for fiscal years 2010 and 2009, respectively.

Financial Aid Fund:

Combined financial aid contributed in grants and other financing expenditures to the statewide institutions were \$27.1 million and \$25 million for fiscal years 2010 and 2009, respectively. There was no significant change in financing uses.

Loan bad debt and loans forgiven expenditures were \$4.3 million and \$92 thousand for fiscal years 2010 and 2009, 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 were \$44 million and \$41 million for fiscal years 2010 and 2009, respectively. Interest earnings on investments were \$102 thousand and \$542 thousand for fiscal years 2010 and 2009, respectively. The Lottery Tuition 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. The Lottery scholarship award expenditures were \$47 million and \$43.3 million for fiscal years 2010 and 2009, respectively.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

State-wide Institutional Distributions:

For fiscal year 2010, the Department distributed \$141 million consisting primarily of 1.) \$52 million in grants, 2.) \$46 million in lottery proceeds, 3.) \$20 million in financial aid, 4.) \$8 million in program expenses and 5.) \$2 million in capital projects.

Statement of Activities as of June 30, 2010 and 2009 (thousands)

	2010	Restated 2009	Change
Functional expenses:			
General governmental	\$ 8,018	\$ 7,622	\$ (396)
Total functional expenses	<u>8,018</u>	<u>7,622</u>	<u>(396)</u>
Program revenues:			
Program revenues	10,769	8,446	2,323
Total program revenues	<u>10,769</u>	<u>8,446</u>	<u>2,323</u>
Net revenue	<u>2,751</u>	<u>824</u>	<u>1,927</u>
General revenues (expenses):			
General revenues (expenses)	(10,714)	(6,184)	(4,530)
Reversions:			
Fiscal year - 2009	(239)	(839)	600
Fiscal year - 2010	(3,005)	-	(3,005)
Total general revenues/(expenses)	<u>(13,958)</u>	<u>(7,023)</u>	<u>(6,935)</u>
Investment earnings	134	748	(614)
Interest on loans	55	459	(404)
Loans forgiven - Principal	<u>(4,384)</u>	<u>(92)</u>	<u>(4,292)</u>
Total other investment incomes/expenses	<u>(4,195)</u>	<u>1,115</u>	<u>(5,310)</u>
Change in net assets	<u>(15,402)</u>	<u>(5,084)</u>	<u>(10,318)</u>
Net assets beginning of year, previously stated	98,995	104,079	(5,084)
Restatements	<u>6,829</u>	<u>-</u>	<u>6,829</u>
Net assets beginning of year, Restated	105,824	104,079	(1,745)
Net assets, ending	<u>\$ 90,422</u>	<u>\$ 98,995</u>	<u>\$ (12,063)</u>

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 2010, the Department's capital assets, consisting of equipment, furniture, fixtures, and vehicles, had a net book value of \$173,018 (\$557,839 cost less \$384,821 accumulated depreciation). Depreciation expense for the year was \$33,592.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Discussion of Budget Comparison

The New Mexico State Legislature makes annual appropriations to the Department. Amendments to the appropriated budget require approval by the Budget Division of the Department of Finance and Administration with review by the Legislative Finance Committee. Over the course of the year, the Department adjusts its budget as authorized in the Appropriation Act. These budget adjustments fall into three categories:

- Supplemental and special appropriations that are reflected in the actual beginning account balances (correcting the estimated amounts in the budget adopted for the fiscal year).
- Budget adjustment requests made during the fiscal year allowed the Office to use funds where needed.
- Budget adjustment requests that increase or decrease other State funds based on actual revenues

There were budget adjustments which transferred funds between line items to reflect the line items expenditures. Actual revenues were \$1.8 million less than budgeted, primarily reflecting reduced federal funds. The general fund appropriation on a modified accrual basis is \$857.6 thousand higher than the final budget, primarily reflecting a multiyear appropriation for the Cyber Academy. It should be noted that at midyear FY09, the Governor of New Mexico and New Mexico legislature reduced most state agency budgets by 2.5%; therefore, the Department adjusted its budget expenditures accordingly. The unexpended balance remaining at the end of fiscal year is required to revert to the State General Fund.

Currently Known Facts and Circumstances

Current Top Management of the Higher Education Department was confirmed on February 11, 2011 and has emphasized two beginning initiatives during 2011 (1) to bring current audit and accounting records and strengthen internal accounting staff and (2) review facility initiatives and investment by New Mexico's colleges and universities. The audit and accounting initiative has been given high priority and has shown progress in reducing backlog of filing requirements. The facilities initiative has increased the public dialogue of what is needed in facility investment and may point towards slower growth in facilities investment.

For fiscal year 2012, 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 caused by mortgage defaults and home foreclosures that triggered a series of financial reactions including the decline of stock prices and tightening of the credit market. Global Insight (GI), the state's national forecaster, anticipates the national economy may have turned upward, marking the end of the recession, in June 2010. GI expects nationwide job losses to continue through the end of the fourth quarter of CY 2012. Within New Mexico, state economic forecasters predict job gain to continue through the second quarter of 2012. Oil and gas revenues have rebounded and are no longer the primary source of declining state general fund revenues. Weak performance of the general economy has led to falling collections from broad-based taxes. State economic forecasters predict a 3.0 percent increase in private wages and salaries in FY12.

Contact Information

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BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities
<u>Assets</u>	
Current assets:	
Interest in SGFIP	\$ 73,888,699
Due from other state agencies	6,378,759
Due from federal government	4,107,953
Accounts receivable	42,490
Prepaid expenses	18,449
Total current assets	84,436,350
Noncurrent assets:	
Loans and interest receivable (net of allowance for doubtful accounts)	17,608,131
Capital assets	557,839
Less: accumulated depreciation	(384,821)
Total noncurrent assets	17,781,149
Net assets	\$ 102,217,499
<u>Liabilities</u>	
Accounts payable	\$ 4,411,911
Accrued payroll liabilities	176,171
Due to project recipients	4,114,873
Due to other state or local agencies	2,776,404
Deferred revenue	180,551
Compensated absences:	
Due within one year	135,489
Total liabilities	11,795,399
Invested in capital assets	173,018
Restricted	90,384,571
Unrestricted Deficit	(135,489)
Total net assets	90,422,100
Total liability and equity	\$ 102,217,499

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

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	\$ 3,337,467	\$ -	\$ 307,453	\$ (3,030,014)
Depreciation	21,667	-	-	(21,667)
Programs activities:				
General governmental	82,632	-	62,285	(20,347)
IDEAL NM	791,477	-	-	(791,477)
Adult Basic Education	694,129	-	4,054,681	3,360,552
No Child Left Behind (NCLB)	468,567	-	631,275	162,708
GEAR-UP	448,104	-	2,791,958	2,343,854
College Access Challenge	327,053	-	327,053	-
GEAR-UP-Depreciation	11,925	-	-	(11,925)
ARRA - Stimulus Money	-	-	1,054,187	1,054,187
Financial Aid	1,685,307	-	1,311,003	(374,304)
Lottery	48,179	-	2,482	(45,697)
Other Funds	102,233	182,432	44,368	124,567
Total primary government	\$ 8,018,740	\$ 182,432	\$ 10,586,745	2,750,437
General revenues and transfers:				
State General Fund appropriations				51,104,721
Bond proceeds				33,521,809
Lottery proceeds				43,608,826
Other financing sources				2,505,564
Other financing (uses)				(141,454,261)
Total general revenues and transfers				(10,713,341)
Other investment incomes/expenses:				
Investment earnings				133,518
Interest on loans				55,368
Loans forgiven - Principal				(4,383,978)
Total other investment income/expenses				(4,195,092)
Reversions:				
Fiscal year - 2009				(239,147)
Fiscal year - 2010				(3,005,085)
Total reversions				(3,244,232)
Change in net assets				(15,402,228)
Net assets beginning of year, previously stated				98,995,386
Restatements				6,828,942
Net assets beginning of year, Restated				105,824,328
Net assets, ending				\$ 90,422,100

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	91000	21600	63700	64400		Total
	General	Financial	Lottery	Capital	Other	Governmental
	Fund	Aid	Tuition	Projects	Funds	Funds
Assets						
Current assets:						
Interest in SGFIP	\$ 2,830,147	\$ 4,911,862	\$ 62,038,924	\$ 1,874,555	\$ 2,311,648	\$ 73,967,136
Due from other state agencies	-	736	3,410,980	2,966,467	576	6,378,759
Due from federal government	2,592,863	460,903	-	-	1,054,187	4,107,953
Due from other funds	367,652	-	4,867	-	-	372,519
Accounts receivable	30,000	334	12,000	-	-	42,334
Prepaid expenses	18,449	-	-	-	-	18,449
Total current assets	5,839,111	5,373,835	65,466,771	4,841,022	3,366,411	84,887,150
Non-current assets:						
Loans and interest receivable (net of allowance for doubtful accounts)	-	17,528,287	-	-	-	17,528,287
Total non-current assets	-	17,528,287	-	-	-	17,528,287
Total assets	<u>\$ 5,839,111</u>	<u>\$ 22,902,122</u>	<u>\$ 65,466,771</u>	<u>\$ 4,841,022</u>	<u>\$ 3,366,411</u>	<u>\$ 102,415,437</u>
Liabilities and Fund Balances						
Liabilities:						
Account payables	\$ 3,316,665	\$ 326,292	\$ -	\$ 16,572	\$ 752,382	\$ 4,411,911
Cash overdraft	-	-	-	-	78,437	78,437
Accrued payroll liabilities	172,392	-	-	-	3,779	176,171
Due to other funds	-	367,652	-	-	4,867	372,519
Due to other state agencies	2,157,804	260,200	-	-	278,400	2,696,404
Due to project recipient	-	-	-	3,890,330	224,543	4,114,873
Deferred revenue	173,801	6,750	-	-	-	180,551
Total liabilities	5,820,662	960,894	-	3,906,902	1,342,408	12,030,866
Fund Balance:						
Unreserved	-	-	-	-	-	-
Reserved for:						
Prepaid expenses	18,449	-	-	-	-	18,449
Lottery Tuition	-	-	65,466,771	-	-	65,466,771
Financial Aid	-	21,941,228	-	-	-	21,941,228
Capital Projects	-	-	-	934,120	-	934,120
Other	-	-	-	-	2,024,003	2,024,003
Total fund balance	18,449	21,941,228	65,466,771	934,120	2,024,003	90,384,571
Total liabilities and fund balance	<u>\$ 5,839,111</u>	<u>\$ 22,902,122</u>	<u>\$ 65,466,771</u>	<u>\$ 4,841,022</u>	<u>\$ 3,366,411</u>	<u>\$ 102,415,437</u>

See accompanying notes which 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, 2010

Total fund balances for the governmental funds (Balance Sheet) \$ 90,384,571

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	\$ 557,839	
Accumulated depreciation	<u>(384,821)</u>	
Total net capital assets		173,018

Compensated absences accrued in the government-wide financial statements are not budgeted in the current period; therefore, excluded from the governmental funds.

Current portion of compensated absences		<u>(135,489)</u>
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Total net assets - government-wide activities (Statement of Net Assets)		<u><u>\$ 90,422,100</u></u>
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**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Financial Aid	Lottery Tuition	Capital Projects	Other Funds	Total Governmental Funds
Revenues:						
Federal sources	\$ 7,927,531	\$ 740,688	\$ -	\$ -	\$ 1,054,187	\$ 9,722,406
Licenses, permits and fees	-	-	-	-	182,432	182,432
Lottery proceeds	-	-	43,608,826	-	-	43,608,826
Interest on investments	-	11,389	101,940	-	20,189	133,518
Interest on loans	-	55,368	-	-	-	55,368
Miscellaneous revenue	56,845	142,132	2,851	-	44,368	246,196
Other grants	81,962	508,182	-	-	-	590,144
Total revenues	8,066,338	1,457,759	43,713,617	-	1,301,176	54,538,890
Expenditures:						
Current:						
Personal services and employee benefits						
	3,823,482	-	-	-	49,564	3,873,046
Contractual services	1,792,519	170,480	-	-	6,341	1,969,340
Other	805,695	1,513,355	48,179	-	46,328	2,413,557
Total expenditures	6,421,696	1,683,835	48,179	-	102,233	8,255,943
Excess (deficiency) of revenues over expenditures	1,644,642	(226,076)	43,665,438	-	1,198,943	46,282,947
Other financing sources (uses):						
State General Fund appropriations	15,769,921	26,054,800	-	-	9,280,000	51,104,721
Bond proceeds appropriations	-	-	-	33,521,809	-	33,521,809
Other financing sources	497,778	17,105	-	9,489	2,009,192	2,533,564
Other financing (uses)	(16,357,153)	(27,050,415)	(47,160,911)	(34,889,289)	(15,936,800)	(141,394,568)
Loans forgiven - principal	-	(4,383,978)	-	-	-	(4,383,978)
Reversions:						
Fiscal year - 2009	(4,361)	-	-	(234,786)	-	(239,147)
Fiscal year - 2010	(2,178,882)	(260,200)	-	(287,603)	(278,400)	(3,005,085)
Total other financing sources (uses)	(2,272,697)	(5,622,688)	(47,160,911)	(1,880,380)	(4,926,008)	(61,862,684)
Net change in fund balances	(628,055)	(5,848,764)	(3,495,473)	(1,880,380)	(3,727,065)	(15,579,737)
Fund Balance beginning of year, previously stated	14,928	27,166,590	66,202,780	-	5,751,068	99,135,366
Restatements	631,576	623,402	2,759,464	2,814,500	-	6,828,942
Fund Balance beginning of year, Restated	646,504	27,789,992	68,962,244	2,814,500	5,751,068	105,964,308
Fund balance, end of year	\$ 18,449	\$ 21,941,228	\$ 65,466,771	\$ 934,120	\$ 2,024,003	\$ 90,384,571

See accompanying notes which 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, 2010**

Net change in fund balances - Total Governmental Funds \$ (15,579,737)
(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 expense. In the current period, amounts are as follows:

Addition to capital assets (Note 5)	11,670	
Depreciation expense for governmental and program activities	(33,592)	
Total excess (deficiency) of capital assets over depreciation		(21,922)

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	199,430	199,430
Rounding		1

Change in net assets of Governmental Activities (Statement of Activities) \$ (15,402,228)

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND (FUND 91000)
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Federal sources	\$ 7,823,300	\$ 7,823,300	\$ 7,927,531	\$ 104,231
Other gift and grants	122,400	122,400	138,807	16,407
 Total revenues	 7,945,700	 7,945,700	 8,066,338	 120,638
Expenditures:				
General government:				
Current:				
Personal services and employee benefits	3,947,600	3,947,600	3,823,482	124,118
Contractual services	2,059,800	2,059,800	1,792,519	267,281
Other costs	9,539,700	2,161,900	805,695	1,356,205
 Total expenditures	 15,547,100	 8,169,300	 6,421,696	 1,747,604
Excess (deficiency) revenues over expenditures	(7,601,400)	(223,600)	1,644,642	1,868,242
Other financing sources (uses):				
General Fund appropriations	18,913,200	18,913,200	15,769,921	(3,143,279)
Other financing sources	3,256,000	3,256,000	497,778	(2,758,222)
Other financing (uses)	(14,567,800)	(21,945,600)	(16,357,153)	5,588,447
Reversion	-	-	(2,183,243)	(2,183,243)
 Net change in fund balance	 \$ -	 \$ -	 \$ (628,055)	 \$ (628,055)

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
ALL FINANCIAL AID PROGRAMS (FUND 21600)
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Federal Sources	\$ 549,000	\$ 549,000	\$ 740,688	\$ 191,688
Other revenues	500,000	500,000	650,314	150,314
Interest on investments	112,800	112,800	11,389	(101,411)
Interest on loans	-	-	55,368	55,368
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	1,161,800	1,161,800	1,457,759	295,959
Expenditures:				
General government:				
Current:				
Other costs	11,345,200	11,345,200	1,683,835	9,661,365
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	11,345,200	11,345,200	1,683,835	9,661,365
Excess (deficiency) revenues over expenditures				
	<hr/>	<hr/>	<hr/>	<hr/>
	(10,183,400)	(10,183,400)	(226,076)	9,957,324
Other financing sources (uses):				
State General Fund appropriations	26,054,800	26,054,800	26,054,800	-
Other financing sources	84,666,898	84,666,898	17,105	(84,649,793)
Other financing (uses)	(100,538,298)	(100,538,298)	(27,050,415)	73,487,883
Loans forgiven - Principal	-	-	(4,383,978)	(4,383,978)
Transfers - Reversion	-	-	(260,200)	(260,200)
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	\$ -	\$ -	\$ (5,848,764)	\$ (5,848,764)

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
LOTTERY TUITION FUND (FUND 63700)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Lottery Proceeds	\$ 49,403,200	\$ 49,403,200	\$ 43,608,826	\$ (5,794,374)
Interest on investments	-	-	101,940	101,940
Miscellaneous revenue	-	-	2,851	2,851
 Total revenues	<u>49,403,200</u>	<u>49,403,200</u>	<u>43,713,617</u>	<u>(5,689,583)</u>
 Expenditures:				
General government:				
Current:				
Other costs	-	-	48,179	(48,179)
 Total expenditures	<u>-</u>	<u>-</u>	<u>48,179</u>	<u>(48,179)</u>
 Excess (deficiency) revenues over expenditures	49,403,200	49,403,200	43,665,438	(5,737,762)
 Other financing sources (uses):				
Other financing (uses)	<u>(49,403,200)</u>	<u>(49,403,200)</u>	<u>(47,160,911)</u>	<u>2,242,289</u>
 Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,495,473)</u>	<u>\$ (3,495,473)</u>

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUND (FUND 64400)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Other revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	-	-
Other financing sources (uses):				
Bond proceeds appropriations	15,472,583	27,144,306	33,521,809	6,377,503
Other financing sources	-	-	9,489	9,489
Other financing (uses)	(15,472,583)	(27,144,306)	(34,889,289)	(7,744,983)
Reversion			(522,389)	(522,389)
Net change in fund balance	\$ -	\$ -	\$ (1,880,380)	\$ (1,880,380)

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

<u>Assets</u>	88100 Endowed Merit Scholars Private-Purpose Trust Fund	23900 College Affordability Endowment Trust Fund	Total Trust Fund
Interest in State Investment Pool	\$ 2,179,222	\$ 924,116	\$ 3,103,338
Long-term Investments (net)	-	19,713,829	19,713,829
Due from other Agencies	-	136	136
Total assets	<u>2,179,222</u>	<u>20,638,081</u>	<u>22,817,303</u>
 <u>Liabilities and Net Assets</u>			
Due to other Agencies	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets:			
In-trust for scholarships	<u>\$ 2,179,222</u>	<u>\$ 20,638,081</u>	<u>\$ 22,817,303</u>

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2010**

	88100 Endowed Merit Scholars Private-Purpose Trust Fund	23900 College Affordability Endowment Trust Fund	Total Trust Fund
Balance, July 1, 2009	\$ 2,179,222	\$ 60,595,815	\$ 62,775,037
Additions			
Interest from investments	-	2,085,615	2,085,615
Unrealized gain on investments	-	13,119,792	13,119,792
General Fund Appropriation	-	15,000,000	15,000,000
Total additions	-	30,205,407	30,205,407
Deductions			
Professional investment fees	-	163,141	163,141
Distributions in accordance with trust agreements	-	2,000,000	2,000,000
Operating transfers	-	68,000,000	68,000,000
Total deductions	-	70,163,141	70,163,141
Balance, June 30, 2010	\$ 2,179,222	\$ 20,638,081	\$ 22,817,303

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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 Entities. The Department also follows 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 of the State of New Mexico. These financial statements include all funds, programs, and activities over which the Cabinet Secretary has direct oversight responsibility.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

A. Reporting Entity and Component Units - Continued

The Department has determined that it has no component units, as defined by GASB 14. 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. 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.

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

GOVERNMENT-WIDE AND FIDUCIARY FUNDS FINANCIAL STATEMENTS:

Government-Wide, Proprietary, and Fiduciary Funds Financial Statements are reported using the economic resources measurement focus. The government-wide 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. 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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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

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. 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 program or function 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, principal and interest of forgiven student loans, and reversions are presented as other financing uses.

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 each governmental category. Non-major funds are summarized into a single column. The Department has four major funds, one general fund presented as major funds as follows:

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

The governmental funds in the fund financial statements are presented on a current financial resource basis and the 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 into the government-wide statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

C. Basic Financial Statements – Fund Financial Statements - Continued

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.

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, generally 60 days 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 or 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 number:

- i. 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 (SHARE Fund 21600, Dept. #'s 2000, 2010, 2030, 2040, 2050, 2060, and 2070) is accounted for within the General Operating Fund for the purpose of funding adult basic education programs. 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 reserved 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)

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

C. Basic Financial Statements – Fund Financial Statements - Continued

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)
New Mexico Student Incentive Federal Grants Fund (SHARE Fund 21600, Dept. #4600)
Vietnam Veterans' Scholarship Fund (SHARE Fund 21600, Dept. # 4700)
Lottery Tuition (SHARE Fund 63700, Dept. #4800)
WICHE (Western Interstate Commission of Higher Education) (SHARE Fund 21600, Dept. #4900)
Dentistry (SHARE Fund 21600, Dept. #5000)
Byrd Scholarship Fund (SHARE Fund 21600, Dept. #5500)
College Access Challenge Fund (SHARE Fund 21600, Dept. #6000)
Pathways Scholarship (SHARE Fund 21600, Dept. #6100)
PSL Loan Repayment (Public Service Law Loan Repayment) (SHARE Fund 21600, Dept. #7000)

21700 College Affordability Scholarship Fund
27100 CHE Institution Compensation Distribution
29200 College Goal Sunday Grant
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
89000 State Fiscal Stabilization Fund – Education Grants, Recovery Funds

FIDUCIARY FUND TYPES

Endowed Merit Scholars Private-Purpose Trust Fund (SHARE Fund 88100, Dept. # 4000) and College Affordability Endowment Trust Fund (SHARE Fund 23900, Dept. #5200) were 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. However, during 2010 \$68,000,000 was transferred to the State General Fund due to the Declaration of an Emergency by the Legislature in House Bill 3.

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D. Education Trust Board of New Mexico

New Mexico “Scholarsedge” and “The Education Plan” are prepaid tuition and savings plans established under Section 529 of the Internal Revenue Service Code, 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 statements of the Department because the Department does not have any direct financial affairs related to the Prepaid Tuition Program.

E. 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. Internal activities of transactions are eliminated. 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.

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Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

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.

F. 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).

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 department level.
6. Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds.

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F. Budget and Budgetary Accounting - Continued

7. Budgetary overages – The Department exceeded its Final approved budget in three control categories at the Appropriations Department Level. Approved Budget Adjustment Resolutions (BARS) for additional funding or Reclass of other budgets were not obtained. The three funds that exceeded the approved budget are 1.) College Affordability Endowment Fund - \$163,141, 2.) Faculty Endowment Fund - \$590,229 and 3.) Lottery Tuition Fund - \$48,179, 4.) Program Development Enhancement Fund - \$171,337, 5.) ARRA Fund - \$43,125, and 6.) Capital Projects Fund - \$7,744,983.
8. Per the General Appropriation Act of 2006, Chapter 28, Section 3, item O, "For the purpose of administering the General Appropriation act of 2008 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 could 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.

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.

G. Interest In State Investment Pool

The Department's funds are held by the State Treasurer 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.

H. 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, 2010.

I. 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, 2010.

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, 2010.

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J. 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.

K. Accrued Payroll and Benefits Payable

A portion of payroll expenditures (thirteen working days) was accrued pertaining to the year ended June 30, 2010. The pay period ending June 25, 2010 was paid on July 2, 2010, for ten (10) working days from June 14 through 25, 2010. The period ending June 30, 2010 was paid on July 16, 2010 for three (3) working days. Since the disbursements did not occur until after fiscal year ended, accrued salaries, payroll taxes and benefit payables totaling \$176,171 were reflected in the financial statements as of June 30, 2010.

L. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair 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.

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 and Vehicles, Equipment and Machinery – 5 years.

M. Accrued 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 is 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.

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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.

N. Federal Grants Receivable (Deferred Revenue)

Various funding 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.

O. 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:

Reserved for:

SHARE			
Fund No.			
21600	Financial Aid programs	\$	21,941,228
63700	Lottery Tuition Fund		65,466,771
21700	College Affordability Scholarship		852,326
29200	College Goal Sunday Grant		8,455
34400	Post-Secondary Educational Institution		374,986
47900	Faculty Endowment Fund		82,643
54500	Higher Education Performance Fund		2,062
64400	Capital Projects		934,120
78200	Program Development Enhancement		903
88100	Legislative Endowment Scholarship Fund		702,628
91000	Reserved for prepaid expenses		18,449
	Total reserved net assets	\$	90,384,571

P. Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

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.

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Q. Net Assets - Continued

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.

Net assets are reported as restricted when constraints placed on net asset use are a.) externally imposed by creditors such as through debt covenants, grantors, contributors, laws, or regulations of other governments or b.) imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be only for the specific purposes stipulated in the legislation.

Legal enforceability means the government can be impelled by an external party-such as citizens, public interest groups or the judiciary to use resources for the purpose specified by the legislation.

The amount of net assets restricted by enabling legislation is \$90,384,571 which represents all restricted net assets reported on page 1.

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

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. Cash and Investments

Included in cash and cash equivalent is \$73,888,699 of funds that are held in the State Treasurer’s Investment Pool. The Department is required by statute to deposit any money received into the State Treasury. Balances maintained at the end of the day are pooled and invested by the State Treasurer. The state Treasurer issues separate financial statements that disclose the collateral pledged to secure these deposits, categories of risk involved and the fair value of purchased investments

The New Mexico State Treasurer monitors the collateral for deposits held by it for other State entities in its various pools, which would include the investment account of the Department. The New Mexico State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these accounts is disclosed. The report may be obtained by writing to the New Mexico State Treasurer, P.O. Box 608, Santa Fe, NM 87504-0608.

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3. Cash and Investments - Continued

The Department is not permitted to have any investments, and the Department did not have any investments of its own during the year ended June 30, 2010. There is no custodial risk at the Department level since the account is under the control of the New Mexico State Treasurer. Other requirements of GASB 40, including disclosure of interest rate risk and credit risk are met at the level of the New Mexico State Treasurer.

Custodial Credit Risk – Deposits. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a 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. As of June 30, 2010, the Department's cash and cash equivalent deposits were not exposed to custodial credit risk.

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The following is a summary of the Department's interest in the State Treasurer General Fund Investment Pool:

SHARE Fund No.	Fund Name	State Treasurer Balance	Outstanding Warrants	Reconciled Balance
91000	General Fund	\$ 2,830,147	\$ -	\$ 2,830,147
21600	Student Financial Aid	4,911,862	-	4,911,862
21700	College Affordability Scholarship	857,067	-	857,067
23900	College Affordability Endowment Fund	924,116	-	924,116
27100	CHE Institution Compensation	180,700	-	180,700
29200	College Goal Sunday Grant	8,454	-	8,454
34400	Post-Secondary Education Institution Fund	379,940	-	379,940
47900	Faculty Endowment Fund	82,631	-	82,631
54500	Performance Fund	2,062	-	2,062
63700	Lottery Tuition Fund	62,038,924	-	62,038,924
64400	Capital Projects	1,874,555	-	1,874,555
78200	Performance Development Fund	98,590	-	98,590
88100	Legislative Endowment Scholarship	2,881,426	-	2,881,426
89000	State Fiscal Stabilization Fund	(78,437)	-	(78,437)
		<u>76,992,037</u>	<u>-</u>	<u>76,992,037</u>

Less:

88100	Legislative Endowment Scholarship Non-expendable Trust Fund included above	\$ (2,179,222)
23900	College Affordability Endowment Trust	(924,116)
	Total expendable cash	<u>\$ 73,888,699</u>

Non-expendable Trust Fund:

88100	Endowed Merit Scholars	\$ 2,179,222
23900	College Affordability Endowment Trust	924,116
	Total non-expendable cash	<u>\$ 3,103,338</u>

Reconciliation to Statement of Net Assets:

Cash and Investments	\$ 73,967,136
Less: Overdraft	(78,437)
Total expendable cash	<u>\$ 73,888,699</u>

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3. Cash and Investments - Continued

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 \$702,204 is shown as a non-major governmental fund.

The Department has entered into custodial agreements with the above financial institutions and the New Mexico State Treasurer. According to this agreement, the State Treasurer is responsible for approving all changes in the pledged collateral, monitoring the collateral requirements, and ensuring that all collateral meets the requirements of state law. As of June 30, 2010, the State Treasurer reported that the cash accounts were adequately collateralized in accordance with state statutes. Deposits Held in Trust. Section 59A-10-4, NM

Pooled Investments. The Department has voluntarily entered into an agreement with the State Investment Council pursuant to Section 6-8-7.G, NMSA 1978 to participate in the investment pool. The Pool is not registered with the SEC and is managed by the State Investment Council. The investments are valued at fair market value based on quoted market prices at the valuation date. The reported value of the pooled shares is the same as the fair value of the pooled shares.

The value of the investments maintained at the State Investment Council External Pooled Investment Funds are as follows at June 30, 2010:

	<u>Market Value</u>
Core Bond Fund	\$ 6,030,947
Large Cap Active Fund	4,916,248
Large Cap Index Fund	4,593,280
Mid/Small Cap Active Fund	2,549,958
Non US Developed	1,016,410
US Emerging Markets	606,986
Total	<u>\$ 19,713,829</u>

Interest Rate Risk. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. The Department places no limit on the amount the Commission may invest in any one issuer.

Please see the financial statements of the State Investment Council for a further discussion of the risks of the pooled investments. Their audit report may be obtained by contacting the State Investment Council at 41 Plaza La Prensa #A Santa Fe, New Mexico 87507.

**STATE OF NEW MEXICO
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4. Receivables

A. Due from Other State Agencies

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

<u>SHARE #</u>	<u>Name</u>	<u>Description</u>	<u>Amount</u>	<u>Due From</u>
21600	Financial Aid	Accrual investment interest	\$ 736	Office of the NM State Treasurer
21700	College Affordability Scholarship	Accrual investment interest	126	Office of the NM State Treasurer
64400	Capital Project	Bond proceeds	2,966,467	New Mexico Board of Finance
63700	Lottery Tuition	Refund from scholarships	3,410,980	Office of the NM State Treasurer
29200	College Goal	Accrual investment interest	1	Office of the NM State Treasurer
47900	Faculty Endowment	Accrual investment interest	12	Office of the NM State Treasurer
78200	Development Enhancement	Accrual investment interest	13	Office of the NM State Treasurer
88100	Endowed Merit Scholarships	Accrual investment interest	424	Office of the NM State Treasurer
Total Due from Other State Agencies			\$ 6,378,759	

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Bond Proceeds Held by State Board of Finance:

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. Bond proceeds are recorded as revenue and receivable upon the approval of drawdown requests by the Board of Finance.

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, 2010 follows:

Project	Group	Approp. ID	Approp. End Date	Amount Sold	Amount Draw	Amount AIPP	Balance Held	SHARE #
							of Finance	Capital
							June 30, 2010	Project Fund
ACADEMIC LIBRARY ACQUISITIONS STATEWIDE	GOB07	06-2284	6/30/2011	\$ 3,000,000	\$ (2,922,390)	\$ -	\$ 77,610	64400
LUNA CMTY COLLEGE EDUCATION BUILDING	GOB07	06-2380	6/30/2010	2,000,000	(168,355)	(20,000)	1,811,645	64400
HED LIBRARY ACQUISITIONS	GOB09	08-4932	6/30/2012	3,000,000	(1,058,135)	-	1,941,865	64400
CCC ALLIED HEALTH BUILDING	GOB09	08-4933	6/30/2012	4,000,000	-	(40,000)	3,960,000	64400
SJC HEALTH SCIENCES CENTER	GOB09	08-4934	6/30/2012	5,000,000	(353,570)	(50,000)	4,596,430	64400
UNM DENTAL RESIDENCY ED FCLTIES STATEWIDE	GOB09	08-4935	6/30/2012	7,000,000	(690,623)	(70,000)	6,239,377	64400
CNMCC WESTSIDE CAMPUS	GOB09	08-4943	6/30/2012	12,000,000	(98,456)	(120,000)	11,781,544	64400
NMJC CENTRAL PLANT UPGRADES	GOB09	08-4944	6/30/2012	3,500,000	(3,465,000)	(35,000)	-	64400
MCC NORTH AMER WIND RESEARCH & TRAINING	GOB09	08-4945	6/30/2012	7,000,000	(4,209,220)	(70,000)	2,720,780	64400
LCC MULTIPURPOSE EDUCATION CENTER	GOB09	08-4946	6/30/2012	4,500,000	(60,756)	(45,000)	4,394,244	64400
SFCC TRADES & ADVANCED TECH CTR	GOB09	08-4947	6/30/2012	4,200,000	(4,158,000)	(42,000)	-	64400
2010 GO BONDS FOR LIBRABRY	GOB10	10-1229	6/30/2014	2,000,000	-	(20,000)	1,980,000	64400
NMJC ROOF IMPROVE/REPLACE	STB10SA	10-1287	6/30/2014	3,000,000	-	-	3,000,000	64400
Total				60,200,000	(17,184,505)	(512,000)	42,503,495	
COMPLETED BOND REIMBURSEMENTS PROJECTS				-	(16,337,304)	-	-	
				\$ 60,200,000	\$ (33,521,809)	\$ (512,000)	\$ 42,503,495	

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 (UNAUDITED)

Under the Department's loan for service programs, i.e. Medical, Osteopathic, Nursing, Allied Health Services, Minority Doctoral, Teachers, Dentistry, and WICHE, payments for principal 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).

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C. Loans and Interest Receivable (UNAUDITED) - Continued

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. Loans and interest receivables reported amounts are unaudited for fiscal year 2010. These amounts are as follows:

<u>Loan for Service Program</u>	<u>Loans Receivable</u>	<u>Interest Receivable</u>	<u>Total Loan and Interest Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Loans Receivable</u>
Allied Health Services Loan	\$ 583,453	\$ 36,329	\$ 619,782	\$ (78,891)	\$ 540,891
Medical Student Loan	1,583,977	287,283	1,871,260	-	1,871,260
Minority Doctoral Loan	968,334	24,603	992,937	-	992,937
Nursing Student Loan	1,899,920	758,332	2,658,252	(747,640)	1,910,612
Osteopathic Student Loan	321,566	146,374	467,940	-	467,940
Southeastern NM Teachers	630,659	265,821	896,480	(283,787)	612,693
WICHE	10,028,018	1,121,446	11,149,464	(240,910)	10,908,554
Dentistry	223,400	-	223,400	-	223,400
	<u>\$ 16,239,327</u>	<u>\$ 2,640,188</u>	<u>\$ 18,879,515</u>	<u>\$ (1,351,228)</u>	<u>\$ 17,528,287</u>

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5. Capital Assets

The capital assets activity for the year ended June 30, 2010, is as follows:

	<u>Balance 6/30/2009</u>	<u>Additions FY10</u>	<u>Deletions FY10</u>	<u>Balance 6/30/2010</u>
Capital assets:				
Equipment & Machinery	\$ 338,898	\$ 11,670	\$ -	\$ 350,568
Furniture & Fixtures	130,091	-	-	130,091
Vehicles	77,180	-	-	77,180
Total at historical cost	<u>\$ 546,169</u>	<u>\$ 11,670</u>	<u>\$ -</u>	<u>\$ 557,839</u>
Less accumulated depreciation:				
Equipment & Machinery	\$ 303,528	\$ 14,272	\$ -	\$ 317,800
Furniture & Fixtures	31,654	10,991	-	42,645
Vehicles	16,047	8,329	-	24,376
Total accumulated depreciation	<u>\$ 351,229</u>	<u>\$ 33,592</u>	<u>\$ -</u>	<u>\$ 384,821</u>
Net capital assets:				
Equipment & Machinery	\$ 35,370	\$ (2,602)	\$ -	\$ 32,768
Furniture & Fixtures	98,437	(10,991)	-	87,446
Vehicles	61,133	(8,329)	-	52,804
Total net capital assets	<u>\$ 194,940</u>	<u>\$ (21,922)</u>	<u>\$ -</u>	<u>\$ 173,018</u>

Depreciation expense was charged to function as follows:

GEAR-UP program	\$ 11,925
General government	21,667
Total depreciation	<u>\$ 33,592</u>

The Department does not have any debt related to capital assets at June 30, 2010. Depreciation expense for the current year was \$33,592 and is included in the "Governmental activities" and "Program activities" functions in the Statement of Activities.

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 \$135,489 in the Statement of Net Assets for annual and sick leave based on current pay rates and hours accumulated at June 30, 2010. The General Fund liquidates compensated absences liabilities.

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A summary of changes in the compensated absences payable for the year ended June 30, 2010, is as follows:

Compensated Absences Payable	Balance 7/1/2009	Increase	Decrease	Balance 6/30/2010	Amount Due within One Year
General Fund	\$ 334,921	\$ 131,505	\$ (330,937)	\$ 135,489	\$ 135,489

Due to Other Agencies and State General Fund/Reversion

With the exception of State General Fund appropriations subject to reversion, the Department was a non-reverting agency in the year ended June 30, 2010. The following shows the computation of the amount due to the State General Fund at June 30, 2010:

(a) Due to State General Fund

Share Number	#91000	#21600	#21700	#64400	Due from	Total
	General Fund	Financial Aid	Lottery Tuition	Capital Projects	Non-Major	
Due to State General Fund as of June 30, 2010	\$ 2,157,804	\$ 260,200	\$ -	\$ -	\$ 278,400	\$ 2,696,404

(b) Reversion

Reversion from Governmental Funds:

<u>FUND DESCRIPTION</u>	<u>Reversion Amount</u>	<u>Share Number</u>
General Fund	\$ 2,183,243	91000
Financial Aid	260,200	21600
Capital Projects	522,389	64400
CHE Institution Compensation	180,700	27100
Development Enhancement	97,700	78200
Total reversions	<u>\$ 3,244,232</u>	

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6. Deferred Revenue

As of June 30, 2010, Department has an amount of \$180,551 deferred revenue. The balances are caused by the timing differences of cash receipts and expenditures stated as follows:

<u>SHARE #</u>	<u>Fund Name</u>	<u>Amount</u>	<u>Explanation</u>
91000	General fund	\$ 173,801	Funds were received for IDEA NM program
21600	Financial Aid	6,750	Fund were received for Federal Grant-Byrd Scholarship
	Deferred revenue	<u>\$ 180,551</u>	

7. 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, 2010, were \$366,950. Future minimum payments under these operating leases are as follows:

2011	\$	343,674
2012		331,629
2013		327,348
2014		159,512
		<u>\$1,162,163</u>

8. 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.

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9. Other Financing Uses/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 2009	\$ 34,800	\$ -
	General Fund Appropriation for Statewide Cyber Academy	462,978	-
	College Access Challenge Grant		10,000
	Grant distribution for GEAR-UP program		2,013,327
	No Child Left Behind		581,391
	Wallace Foundation		42,039
	Operating - Dental Hygiene Program		497,500
	Supplemental Nursing Camp		339,293
	Grants to NM Technology Education Inc.		12,000
	Grants to various community colleges		630,353
	High Skills		540,900
	Engaging Latino Communities for Education (ENLACE)		1,147,300
	Law 2009, Grants to various universities		74,700
	ABE programs		9,716,412
	New Mexico Mathematics, Engineering, Science Achievement (MESA)		1,100,900
<u>21600</u>	Financial Aid		
	Reclass of funds due to timing difference	(10,895)	
	State Student Incentive - Grants refund	28,000	
	Statewide financial aid scholarships and student loans		26,701,453
<u>21700</u>	College Affordable		
	Transfer in from College Affordability Trust Fund	2,000,000	
	Awarded for scholarship		1,999,872
<u>27100</u>	CHE Institution Compensation		
	Retirement fund		5,843,300
<u>34400</u>	Post-Secondary Educational Institute		
	Refunded from other institutions of unused funds	9,192	
<u>47900</u>	Faculty Endowment		
	Statewide institutions faculty		904,229
<u>54500</u>	High Performance		
	Performance		2,848,700
<u>78200</u>	Development enhancement		
	Supplemental statewide programs for enhancement		3,329,637
<u>63700</u>	Lottery Tuition		
	Grant distribution to other colleges and institutions		47,160,911
<u>64400</u>	Capital Project		
	Refunded from other institutions of unused funds	9,489	
	Used for institutions capital projects draw-down		34,889,289
<u>89000</u>	State Fiscal Stabilization Fund		
	State-wide supplemental Grants to institutions		1,011,062
	Total	\$ 2,533,564	\$ 141,394,568

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10. Transfers to/from Other Agencies

State Agency	Agency Number	Fund Number	Purpose	#91000 General Fund	#21600 Financial Aid	#27100 CHE Institution Compensation	#78200 Development Enhancement	#64400 Capital Projects	#23900 College Affordability Endowment Fund	Total
DFA	34100	85300	Fund Appropriation	\$ 15,769,921	\$ 26,054,800	\$ 6,024,000	\$ 3,256,000	-	-	\$ 51,104
State Board of Finance	34100	85300	Bond Proceed Appropriation	-	-	-	-	33,521,809	-	33,521
State General Fund	34100	85300	Emergency Distribution	-	-	-	-	-	(68,000,000)	(68,000)
				<u>\$ 15,769,921</u>	<u>\$ 26,054,800</u>	<u>\$ 6,024,000</u>	<u>\$ 3,256,000</u>	<u>\$ 33,521,809</u>	<u>\$ (68,000,000)</u>	<u>\$ 16,626</u>

11. 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, 2010, 2009, and 2008 were \$424,681, \$492,336, and \$380,953, respectively, which equal the amount of the required contributions for each year.

12. 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.

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12. Post-Employment Benefits – State Retiree Health Plan - Continued

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.

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, 2010, 2009, 2008, were \$35,902, \$38,089, and \$29,710, respectively, which equal the required contributions for each year.

13. 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.

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14. 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.

14. Restatements

Description	Amount	Fund
Adjustment for June 2009 lottery proceeds receivable and associated revenue.	\$ 2,759,464	63700
Adjustment for unused capital projects funded by State General Fund appropriations.	2,814,500	64400
Adjustment to recognize deferred revenue spent in a prior year	80,000	91000
Adjustment to recognize grant revenue in proper period.	274,438	21600
Adjustment for underreported accounts receivable at June 30, 2009 for Adult Basic Education.	345,800	91000
Adjustment for underreported accounts receivable at June 30, 2009 for No Child Left Behind.	318,950	91000
Request to pay prior year 2009 account adjustment.	(113,174)	91000
Adjustment to LEAP/SLEAP for underreported accounts receivable at June 30, 2009.	348,964	91000
Total change in fund balance	\$ 6,828,942	

16. Federal Funds Questioned Costs Uncertainties

The audit of the Agency's single audit for federal funding revealed various instances of noncompliance and control weaknesses including the determination of known questioned costs in the amount of \$61,687 and also identified additional questioned costs of an unknown amounts not currently determinable. Federal funding agencies are required by the Single audit Act to respond to the determination and reporting of questioned costs and such reply may include the request for refunds of previous funding from the agency. The outcome of these matters and the request for return of previous funding amounts, if any, is not currently determinable.

17. Related Party Transactions

The Department entered into a contract with a nonprofit organization to provide services under the College Access Challenge Grant (CACG) in fiscal year 2010. The executive director of this nonprofit was the spouse of the director of the CACG program at the Department. The amount of the contract was for \$47,500. Of this amount, \$2,500 was paid to the nonprofit prior to June 30, 2010, and \$45,000 was paid after June 30, 2010.

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18. Subsequent Events

Events subsequent to have been evaluated by management through January 31, 2012, the date of the auditor's report. In the opinion of management, no events occurring after 0 require adjustment to the financial statements.

GASB Statement No. 54 clarifies the existing governmental fund types definitions and provides clearer fund balance categories and classifications. The hierarchical fund balance classifications are based primarily upon the extent to which government is bound to follow constraints on resources in governmental funds and includes the terms: non-spendable, restricted, committed, assigned, and unassigned. GASB Statement No. 54 will be required to be implemented in fiscal year 2011. The Department has evaluated the impact of GASB 54 and believes there will be no material effect on the financial statements.

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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 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.

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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.

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 principal 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 Professional 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 Endowed Merit Scholars Private Purpose Trust 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.

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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 21-2H-9, money appropriated to the fund is non-reverting to the State General Fund.

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.

New Mexico Student Incentive Federal Grants (LEAP/SLEAP Federal Fund (SHARE Fund #21600 Dept. #4600) Program fund accounts for the federal portion of the LEAP/SLEAP program. 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 on criteria adopted by the Department. This federal portion is separated from state funds as required by the federal contract. The Department has Maintenance of Effort requirements to maintain level of funding.

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.

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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, with the exception of a one-time reversion that was enacted by legislation in 2010.

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.

Byrd Scholarship (SHARE Fund #21600 Dept. #5500) -- This program is federally funded and state-administered, which is designed to recognize exceptionally able high school seniors who show promise of continued excellence in post-secondary education. The Department awards fund to state education agencies (SEAs), which make scholarship award to eligible applicants. Students receive scholarships for college expenses. Legislative Citation -- Higher Education Act of 1965 (HEA, as amended, Title IV, Part A, Subpart 6, Sections 419A-419K; 20 U.S.C. 1070d-31—1070d-41.

College Access Challenge Grant (SHARE Fund #21600 Dept. #6000) – Program fund accounts for the federal College Access Challenge Grant Award. The purpose of the College Access Challenge Grant Program (CACGP) is to foster partnerships among federal, state, and local governments and philanthropic organizations through matching challenge grants that are aimed at increasing the number of low-income students who are prepared to enter and succeed in post-secondary education.

Pathways Scholarship (SHARE Fund #21600 Dept. #6100) – Program fund accounts for the Non-Federal matching requirement to the College Access Challenge Grant. The program gives low income, high achieving first time freshman monetary support during their first semester at college.

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. #5400) – This fund accounts for Merit Scholarships which are funded by the Endowed Merit Scholars Private Trust Fund.

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.

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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.

Furthermore, the State has assured that it would take steps to achieve equity in the distribution of highly qualified teachers, enhance the quality of standards and assessments, and support its persistently lowest-achieving schools.

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NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS
JUNE 30, 2010**

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 the 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.

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 first 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.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS
JUNE 30, 2010**

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.

American Recovery and Reinvestment Act (ARRA) (SHARE Fund #89000) – This fund is authority of PL 111-5 of 2009 to assist education grants of recovery funds. The funding program is authorized by the U.S. Department of Education's Grant Administration. The purpose of this fund is to supplement of phase II of public institutions of higher education, that the State will maintain the State's support for elementary and secondary education and for public higher education for each of fiscal years 2009, 2010, 2011 as least at the respective levels of such support for fiscal year 2006. The maintenance-of-effort requirement applies in fiscal years 2010 and 2011 even if all of a State's SFSF funds are expended prior to those periods.

Furthermore, the State has assured that it would take steps to achieve equity in the distribution of highly qualified teachers, enhance the quality of standards and assessments, and support its persistently lowest-achieving schools.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR FUNDS
JUNE 30, 2010**

	21700	27100	29200	34400	47900	54500	78200	88100	8900	Total
	College		College Goal	Post-Secondary		Higher Ed.		Legislative	American	
	Affordability	CHE Institution	Sunday	Educational	Faculty	Performance	Development	Endowment	Recovery and	Other
	Scholarship	Compensation	Grant	Institution	Endowment	Fund	Enhancement	Scholarships	Investment Act	Funds
Assets										
Interest in SGFIP	\$ 857,067	\$ 180,700	\$ 8,454	\$ 379,940	\$ 82,631	\$ 2,062	\$ 98,590	\$ 702,204	\$ -	\$ 2,311,648
Due from federal government	-	-	-	-	-	-	-	-	1,054,187	1,054,187
Due From Other Agencies	126	-	1	-	12	-	13	424	-	576
Total assets	\$ 857,193	\$ 180,700	\$ 8,455	\$ 379,940	\$ 82,643	\$ 2,062	\$ 98,603	\$ 702,628	\$ 1,054,187	\$ 3,366,411
Liabilities and Fund Balances										
Liabilities:										
Account Payable	\$ -	\$ -	\$ -	\$ 1,175	\$ -	\$ -	\$ -	\$ -	\$ 751,207	\$ 752,382
Payroll liabilities	-	-	-	3,779	-	-	-	-	-	3,779
Cash overdraft	-	-	-	-	-	-	-	-	78,437	78,437
Due to other funds	4,867	-	-	-	-	-	-	-	-	4,867
Due to project recipient	-	-	-	-	-	-	-	-	224,543	224,543
Due to State General Fund	-	180,700	-	-	-	-	97,700	-	-	278,400
Total liabilities	4,867	180,700	-	4,954	-	-	97,700	-	1,054,187	1,342,408
Fund Balance:										
Reserved for:										
Secondary Educational	852,326	-	8,455	374,986	-	-	-	-	-	1,235,767
Faculty Endowment	-	-	-	-	82,643	-	-	-	-	82,643
Performance Development	-	-	-	-	-	2,062	903	-	-	2,965
Scholarships	-	-	-	-	-	-	-	702,628	-	702,628
Total fund balance	852,326	-	8,455	374,986	82,643	2,062	903	702,628	-	2,024,003
Total liabilities and fund balance	\$ 857,193	\$ 180,700	\$ 8,455	\$ 379,940	\$ 82,643	\$ 2,062	\$ 98,603	\$ 702,628	\$ 1,054,187	\$ 3,366,411

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE –
NON-MAJOR FUNDS
JUNE 30, 2010**

	21700	27100	29200	34400	47900	54500	78200	88100	8900	Total
	College		College Goal	Post-Secondary		Higher Ed.		Legislative	American	Total
	Affordability	CHE Institution	Sunday	Educational	Faculty	Performance	Development	Endowment	Recovery and	Other
	Scholarship	Compensation	Grant	Institution	Endowment	Fund	Enhancement	Scholarships	Investment Act	Funds
Revenues:										
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,054,187	\$ 1,054,187
Interest on investments	12,279	-	12	-	845	2,033	903	4,117	-	20,189
Licenses, permits and fees	-	-	-	182,432	-	-	-	-	-	182,432
Miscellaneous revenue	44,368	-	-	-	-	-	-	-	-	44,368
Other Grants	-	-	-	-	-	-	-	-	-	-
Total revenues	56,647	-	12	182,432	845	2,033	903	4,117	1,054,187	1,301,176
Expenditures:										
Current:										
Personal services and employee benefits	-	-	-	49,564	-	-	-	-	-	49,564
Contractual services	-	-	-	6,341	-	-	-	-	-	6,341
Other	-	-	-	3,203	-	-	-	-	43,125	46,328
Total expenditures	-	-	-	59,108	-	-	-	-	43,125	102,233
Excess (deficiency) of revenues over expenditures	56,647	-	12	123,324	845	2,033	903	4,117	1,011,062	1,198,943
Other financing sources (uses):										
State General Fund appropriations	-	6,024,000	-	-	-	-	3,256,000	-	-	9,280,000
Other financing sources	2,000,000	-	-	9,192	-	-	-	-	-	2,009,192
Other financing (uses)	(1,999,872)	(5,843,300)	-	-	(904,229)	(2,848,700)	(3,329,637)	-	(1,011,062)	(15,936,800)
Reversion - Fiscal year 2010	-	(180,700)	-	-	-	-	(97,700)	-	-	(278,400)
Total other financing sources (uses)	128	-	-	9,192	(904,229)	(2,848,700)	(171,337)	-	(1,011,062)	(4,926,008)
Net change in fund balances	56,775	-	12	132,516	(903,384)	(2,846,667)	(170,434)	4,117	-	(3,727,065)
Fund balances beginning of year, previously stated	795,551	-	8,443	242,470	986,027	2,848,729	171,337	698,511	-	5,751,068
Restatements	-	-	-	-	-	-	-	-	-	-
Fund balances beginning of year, Restated	795,551	-	8,443	242,470	986,027	2,848,729	171,337	698,511	-	5,751,068
Fund balance, end of period	\$ 852,326	\$ -	\$ 8,455	\$ 374,986	\$ 82,643	\$ 2,062	\$ 903	\$ 702,628	\$ -	\$ 2,024,003

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
COLLEGE AFFORDABILITY SCHOLARSHIP (FUND 21700)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 12,279	\$ 12,279
Other revenues	-	-	44,368	44,368
			-	
Total revenues	-	-	56,647	56,647
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	56,647	56,647
Other financing sources (uses):				
Other financing sources	2,000,000	2,000,000	2,000,000	-
Other financing (uses)	(2,000,000)	(2,000,000)	(1,999,872)	128
			-	
Net change in fund balance	\$ -	\$ -	\$ 56,775	\$ 56,775

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
CHE INSTITUTION COMPENSATION (FUND 27100)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Other revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) revenues over expenditures	-	-	-	-
Other financing sources (uses):				
State General Fund appropriations	6,024,000	6,024,000	6,024,000	-
Other financing (uses)	(6,024,000)	(6,024,000)	(5,843,300)	180,700
Transfer-Reversion	-	-	(180,700)	(180,700)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
COLLEGE GOAL SUNDAY GRANT (FUND 29200)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 12	\$ 12
Total revenues	-	-	12	12
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	12	12
Other financing sources (uses):				
Other financing sources	-	-	-	-
State General Fund appropriations	-	-	-	-
Other financing uses	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 12	\$ 12

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
POST-SECONDARY EDUCATIONAL INSTITUTIONAL FUND (FUND 34400)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Other licenses	\$ 145,000	\$ 145,000	\$ 182,432	\$ 37,432
Total revenues	145,000	145,000	182,432	37,432
Expenditures:				
General government:				
Current:				
Other costs	145,000	145,000	59,108	85,892
Total expenditures	145,000	145,000	59,108	85,892
Excess (deficiency) revenues over expenditures	-	-	123,324	123,324
Other financing sources (uses):				
Other financing sources	-	-	9,192	9,192
Other financing uses	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 132,516	\$ 132,516

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
FACULTY ENDOWMENT FUND (FUND 47900)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 845	\$ 845
Total revenues	-	-	845	845
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	845	845
Other financing sources (uses):				
Other financing sources	314,100	314,000	-	(314,000)
Other financing uses	(314,100)	(314,000)	(904,229)	(590,229)
Net change in fund balance	\$ -	\$ -	\$ (903,384)	\$ (903,384)

See accompanying notes which are an integral part of the financial statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
HIGHER EDUCATION PERFORMANCE (FUND 54500)
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 2,033	\$ 2,033
Total revenues	-	-	2,033	2,033
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	2,033	2,033
Other financing sources (uses):				
Prior year fund balance	2,848,700	2,848,700	-	(2,848,700)
Other financing (uses)	(2,848,700)	(2,848,700)	(2,848,700)	-
Net change in fund balance	\$ -	\$ -	\$ (2,846,667)	\$ (2,846,667)

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
PROGRAM DEVELOPMENT ENHANCEMENT (FUND 78200)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 903	\$ 903
Total revenues	-	-	903	903
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	903	903
Other financing sources (uses):				
State General Fund appropriations	3,496,300	3,256,000	3,256,000	-
Other financing uses	(3,496,300)	(3,256,000)	(3,427,337)	(171,337)
Net change in fund balance	\$ -	\$ -	\$ (170,434)	\$ (170,434)

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
ENDOWED MERIT SCHOLARSHIP FUND (FUND 88100)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Interest on investments	\$ -	\$ -	\$ 4,117	\$ 4,117
Total revenues	-	-	4,117	4,117
Expenditures:				
General government:				
Current:				
Other costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) revenues over expenditures	-	-	4,117	4,117
Other financing sources (uses):				
Other financing sources	24,000	24,000	-	(24,000)
Other financing uses	(24,000)	(24,000)	-	24,000
Net change in fund balance	\$ -	\$ -	\$ 4,117	\$ 4,117

See accompanying notes which are an integral part of the financial statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
AMERICAN RECOVERY AND REINVESTMENT ACT FUND (FUND 89000)
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Modified Accrual Basis	Variance Favorable (Unfavorable)
Revenues:				
Federal sources	\$ 85,944,012	\$ 85,944,012	\$ 1,054,187	\$ (84,889,825)
Total revenues	<u>85,944,012</u>	<u>85,944,012</u>	<u>1,054,187</u>	<u>(84,889,825)</u>
Expenditures:				
General government:				
Current:				
Other costs	-	-	43,125	(43,125)
Total expenditures	<u>-</u>	<u>-</u>	<u>43,125</u>	<u>(43,125)</u>
Excess (deficiency) revenues over expenditures	85,944,012	85,944,012	1,011,062	(84,932,950)
Other financing sources (uses):				
Other financing uses	<u>(85,944,012)</u>	<u>(85,944,012)</u>	<u>(1,011,062)</u>	<u>84,932,950</u>
Net change in fund balance	<u>\$ (85,944,012)</u>	<u>\$ (85,944,012)</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes which are an integral part of the financial statements.

SUPPLEMENTAL INFORMATION

State of New Mexico
Higher Education Department
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2010

Federal Grantor/ Pass Through Grantor/Program Title	Grant Number or Pass Through Number	Federal Catalog of Domestic Assistance Number	Total Federal Award Expenditures
U.S. Department of Education:			
Direct Programs:			
Adult Education - Basic Grants to States	V002A090031	84.002	\$ 4,054,681
Leveraging Education Assistant Partnership (LEAP)/ Special Leveraging Education Assistant Partnership (SLEAP)	N069A090032 and N069B090028	84.069	323,938
Robert C. Byrd Honors Scholarship	P185A090033	84.185	224,250
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S06009	84.334	2,889,528
No Child Left Behind	S367B080028	84.367	631,275
College Access Challenge Grant	P378A080052	84.378	327,053
State Fiscal Stabilization ARRA	S394A090032	84.394A	958,562
Veterans State Approving	V101 (223C) P-5040	84.xxx	<u>24,994</u>
Total U.S. Department of Education			9,434,281
U.S. Department of Health and Human Services:			
Direct Programs:			
State Loan Repayment Program	H56HP00099-22-01	93.165	192,500
ARRA State Loan Repayment Program	H5BHP16808	93.402	<u>95,625</u>
Total U.S. Department of Health and Human Services			<u>288,125</u>
			<u><u>\$ 9,722,406</u></u>

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

Federal expenditures	\$ 9,722,406
Other expenditures and financing uses	<u>144,899,547</u>
Total expenditures and financing uses per the financial statements	<u><u>\$ 154,621,953</u></u>



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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. Jose Z. Garcia, 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, 2010, which collectively comprise the Department's basic financial statements and have issued our report thereon dated January 31, 2012. Our auditors' report was qualified for our lack of audit evidence obtained in relation to the loans for service program due to the condition of the records. 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, 2010. 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

Management of the Department is responsible for establishing and maintaining effective 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 and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Please refer to findings 2006-01, 2010-07, 2010-01, 2010-05, and 2010-08.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. Please refer to findings 2010-03, 2010-04, 2010-11, 2010-12, 2010-13, 2010-14, 2010-15, 2010-17, and 2010-18.

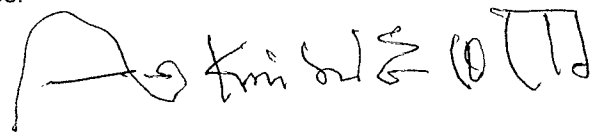
Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs. Please refer to items 2010-10, 2010-13, 2010-14, 2010-16, 2010-17, 2010-18, 2010-19, and 2010-20.

We noted certain other matters that are required to be reported pursuant to Auditing Standards paragraphs 5.14 and 5.16 and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 2010-02, 2010-06, 2010-09 and 2010-21.

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 responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Department's management, others within the Department, the Office of the State Auditor, the Department of Finance and Administration, the New Mexico Legislature, Federal and State Granting Agencies and Pass-Through Entities, and it is not intended to be and should not be used by anyone other than these specified parties.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 31, 2012



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Dr. Jose Z. Garcia, 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 State of New Mexico, Higher Education Department's (Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Department's major federal programs for the year ended June 30, 2010. 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 America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of the Department's compliance with those requirements.

As described in items 2010-10, 2010-13, 2010-14, 2010-15, 2010-16, 2010-17, 2010-18, 2010-19, and 2010-20 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding procurement, identification of federal funds, cash management, periods of availability, allowable costs, procurement, suspension and debarment, federal grant reporting and monitoring level of effort and eligibility that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, due to the noncompliance described in the preceding paragraph, the Department did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

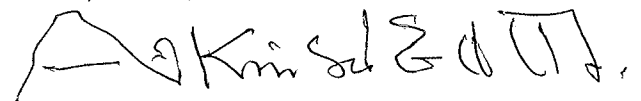
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2006-01, 2010-01, 2010-05, 2010-07, 2010-08, and 2010-11 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-03, 2010-04, 2010-12, 2010-13, 2010-14, 2010-15, 2010-17, and 2010-18 to be significant deficiencies.

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 responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Department's management, others within the Department, the Office of the State Auditor, the Department of Finance and Administration, the New Mexico Legislature, Federal and State Granting Agencies and Pass-Through Entities, and it is not intended to be and should not be used by anyone other than these specified parties.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 31, 2012

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Qualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified?	Yes
Type of auditors' report issued on compliance for major programs?	Adverse
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

HRLRP	93.165
LEAP/SLEAP (SSIG)	84.069
BYRD	84.185
State Fiscal Stabilization	84.394A
College Access Challenge	84.378A
Gear Up	84.334

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as a low –risk auditee?	No

Prior Year Findings

- Finding 2006-01 General Ledger for Loan for Service programs was not being reconciled
---- MODIFIED and REPEATED
- Finding 2008-01 Cash receipt deposits were improperly managed—RESOLVED

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

II – FINANCIAL STATEMENT FINDINGS

2006-01	Reconciliation and Tracking of Loan-for-Service Programs (Repeated and Modified) (Material Weakness)
2010-01	Entity-Level Controls over Financial Reporting (Material Weakness)
2010-03	Controls Related to Cash Receipts Transaction Cycle (Significant Deficiency)
2010-04	Controls Related to Cash Disbursement Transaction Cycle (Significant Deficiency)
2010-05	Capital Projects Accounting and Reporting (Material Weakness)
2010-07	Due Date of Audit Report (Material Weakness)
2010-08	Prior Period Restatements (Material Weakness)
2010-10	Violation of the Governmental Conduct Act (Compliance)
2010-11	Data Collection Form-Late filing (Significant Deficiency) (All Programs)
2010-12	Schedule of Expenditures of Federal Awards Preparation (Significant Deficiency) (All Programs)
2010-13	Cash Management Controls and Compliance (Significant Deficiency/Compliance)
2010-14	Period of Availability (Compliance/Significant Deficiency)
2010-15	Allowable Costs (Significant Deficiency)
2010-16	Procurement, Suspension and Debarment (Compliance)
2010-17	Federal Grant Reporting (Compliance/Significant Deficiency)
2010-18	Federal Grant Monitoring (Compliance/Significant Deficiency)
2010-19	Federal Grant Level of Effort (Compliance)
2010-20	Eligibility (Compliance)

Findings in Accordance with NMAC 2.2.2

2010-02	Compliance with Timely Deposit Requirement (Compliance/NMAC 2.2.2)
2010-06	Compliance with Travel and Per Diem Act (NMAC 2.2.2)
2010-09	Budgetary Compliance (NMAC 2.2.2)
2010-21	Untimely Reversion (NMAC 2.2.2)

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2006-01	Reconciliation and Tracking of Loan-for-Service Programs (Repeated and Modified) (Material Weakness)
2010-01	Entity-Level Controls over Financial Reporting (Material Weakness)
2010-03	Controls Related to Cash Receipts Transaction Cycle (Significant Deficiency)
2010-04	Controls Related to Cash Disbursement Transaction Cycle (Significant Deficiency)
2010-05	Capital Projects Accounting and Reporting (Material Weakness)
2010-07	Due Date of Audit Report (Material Weakness)
2010-08	Prior Period Restatements (Material Weakness)
2010-10	Violation of the Governmental Conduct Act (Compliance)
2010-11	Data Collection Form-Late filing (Significant Deficiency) (All Programs)
2010-12	Schedule of Expenditures of Federal Awards Preparation (Significant Deficiency) (All Programs)
2010-13	Cash Management Controls and Compliance (Significant Deficiency/Compliance)
2010-14	Period of Availability (Compliance/Significant Deficiency)
2010-15	Allowable Costs (Significant Deficiency)
2010-16	Procurement, Suspension and Debarment (Compliance)
2010-17	Federal Grant Reporting (Compliance/Significant Deficiency)
2010-18	Federal Grant Monitoring (Compliance/Significant Deficiency)
2010-19	Federal Grant Level of Effort (Compliance)
2010-20	Eligibility (Compliance)

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

I. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS

**2006-1 Reconciliation and Tracking of Loan-for-Service Programs
(Repeated and Modified) (Material Weakness)**

Condition

The Department's Financial Aid Division implemented a new computer system (ECSI) (from a third-party service organization) to track individual student loans in May 2009. After the data was converted to the new system, the Division did not perform a reconciliation to determine that all loans and data were transferred completely and correctly with the result that the underlying data (including the loan status, separate principal and interest balances, and graduation dates) was not transferred correctly and whether all loans were transferred is not determinable. As a result of the incorrectly transferred data, billing ceased and interest was not accrued on many active loans in repayment, and billing and interest accrual has not begun on some loans that should now be in repayment. Further, the Department did not record or track the amounts of student loans forgiven in the general ledger during the year.

Criteria

Chapters §6-5-1 through §6-5-6, NMSA 1978 requires State agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. Accounting principles generally accepted in the United States of America (GAAP) require that loans receivable be recorded at net realizable value (fair market value). Interest should be accrued based on contractual rates and provisions and should be able to be distinguished from principal amounts.

Effect

Student Loan account balances were likely to be incorrect and/or incomplete.

Cause

Prior administrative staff became aware of the problem in 2009 but did not have the resources necessary to reconcile the SHARE general ledger accounts to the sub-ledger (ECSI) reports on a regular basis. Responsible personnel did not effectively monitor the servicer transition.

Recommendation

We recommend that the Department reconcile each loan to the ECSI system and the general ledger. Monthly detailed reports from ECSI and postings to the general ledger for loan activity including interest accrual and amounts forgiven should be reviewed by management to ensure that all loan information is accurately reflected in the general ledger.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2006-1 Reconciliation and Tracking of Loan-for-Service Programs - Continued

Department Response

NMHED will take the following actions:

- Reconcile each loan in ECSI system to the general ledger.
- Hire and train staff to verify files on an on-going basis.
- Continue to work with ECSI on reprogramming items to make categories clearer and to properly document the status of the account (i.e. proper ageing and collection efforts).
- Financial aid division will provide monthly reports to the Administrative Services Division for reconciliation to the general ledger.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-01 Entity-Level Controls over Financial Reporting (Material Weakness)

Condition

The Department did not have adequate controls in place to exercise effective oversight of the financial reporting process at the entity level during FY10. Financial accounting and reporting functions are decentralized, leading to inconsistencies and lack of coordination between departments. There is no clear central repository for source documents.

Criteria

A strong internal control structure is required by the NM Department of Finance and Administration (DFA) Model Accounting Practices (MAP) via 2.20.5.8C(1)NMAC which includes controls over the control environment, monitoring, communication and risk assessments (all entity-level controls) related to financial reporting and activity (transaction) level processes.

Effect

Untimely and/or inaccurate financial reporting could affect federal and state funding. Misstatements due to errors or fraud may go undetected. Source documents were not readily available for audit.

Cause

During the prior administration there was considerable employee turnover in key management positions and lack of communication and oversight between upper management and staff responsible for day-to-day activities. The new administration did not have information on systems and policies in effect on their confirmation. Policies over records retention were not in place.

Recommendation

We recommend that Management clearly communicate and document employee responsibilities and expectations, ensure that positions are filled with persons meeting the qualifications for the particular position, and put policies and procedures in place to ensure that financial reporting objectives are met as required by State law.

Department Response

NMHED will take the following actions:

- The executive team is evaluating the organization chart, job descriptions, and personnel.
- Personnel will be evaluated for qualifications and determination as to whether they are a good fit for their respective position and the Department as a whole.
- Personnel will receive at least an annual evaluation.
- The Administrative Services Division will adopt policies to ensure financial reporting objectives will be met.
- A new Administrative Services Director (ASDR), Jennifer Moseley was hired in January. She is a CPA. She will be evaluating policies and procedures in place and will change/update accordingly.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-02 Compliance with Timely Deposit Requirement (Compliance/NMAC 2.2.2)

Condition

While performing tests of controls of cash receipts and deposits transaction cycle, it was noted in 4 out of 25 instances that cash receipts were deposited later than the end of the next business day after receipt.

Criteria

Per 6-10-3 NMSA 1978, all money received by a State Agency must be deposited before the close of the next succeeding business day.

Effect

There is an increased possibility of the loss or theft of cash receipts. There is also an increased risk of misstatement due to fraud or error. Cash flow is delayed for un-deposited amounts for state purposes.

Cause

During the prior administration cash was processed by other departments before it was given to the Administrative Services Division (ASD) to process and deposit into the bank; therefore, there were a number of employees who were not processing the payments within the allotted time. Also, the individual who prepares the deposit was not reconciling the check log to deposit amount to ensure that receipts received were deposited by the next day.

Recommendation

We recommend that the Department implement procedures to ensure that all receipts are deposited before the close of the next succeeding business day.

Department Response

NMHED will take the following actions:

- Procedures for this process have been implemented subsequent to prior administration. These procedures will be reviewed by the ASDR and updated accordingly.
- There will an evaluation of segregation of duties by the ASDR and changes will be made accordingly.

**STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-03 Controls Related to Cash Receipts Transaction Cycle (Significant Deficiency)

Condition

During testing of controls, the following control deficiencies were noted surrounding the cash receipts transaction cycle:

- Incorrect documentation regarding cash receipts and lack of segregation of duties. The Department failed to document all cash receipts in the check log.
- The check log was not reconciled to the manual deposits.
- There was a lack of segregation of duties as the Department did not separate the custody of the asset from the record keeping. For example, the ASD Accountant not only prepared deposit slips and deposits cash, but recorded the receipts in SHARE as well.
- The Administrative Assistant who recorded the cash receipts in the check log also made deposits at the bank.

Criteria

The Department's policies require all checks received to be logged into the check log and strong internal controls provide for proper segregation of duties and other forms of checks and balances.

Effect

There was an increased possibility of the loss or theft of cash receipts. There was also an increased risk of misstatement due to fraud or error. The check log is used to determine compliance with state statute (6-10-3 NMSA 1978); therefore, proper documentation is necessary.

Cause

There was a high turn-over rate at the Department. During the prior administration duties were not being performed consistently and new employees did not receive appropriate training. The new administration did not have timely systems and policy information available at the start of their tenure.

Recommendation

We recommend that Management introduce additional employees into the cash receipts cycle to ensure adequate segregation of duties and properly utilize the deposit log ensuring that all deposits are logged and that the total for the day and month are agreed to the general ledger. The Department should have an individual who does not have access to the actual cash (or check) received, log all receipts received by the Department. The individual who prepares the daily deposits should reconcile the deposit to the check log to assure that monies received have been included in the deposit for that day. Once the deposit is made, an individual who did not make the physical deposit should reconcile the check log to the deposit posted in the general ledger. Such reconciliation should assist the Department in complying with the state statute and decrease the likelihood of posting errors or fraud. Management should also ensure that when a position involved in this process becomes vacant, the duties assigned to that position are still completed appropriately.

Department Response

NMHED will take the following actions:

- Procedures for this process have been implemented subsequent to prior administration. These procedures will be reviewed by the ASDR and changed accordingly.
- There will an evaluation of segregation of duties by the ASDR and changes will be made accordingly.

**STATE OF NEW MEXICO
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YEAR ENDED JUNE 30, 2010**

2010-04 Controls Related to Cash Disbursement Transaction Cycle (Significant Deficiency)

Condition

During testing of controls and transactions, the following control deficiencies were noted related to the cash disbursement transaction cycle:

- Insufficient documentation regarding cash disbursements and lack of segregation of duties. The ASD Accountant, Federal Grants Analyst and Financial Aid Coordinator had the ability to create purchase documents and approve them as well. Purchases over \$1,500 must also be approved by DFA and it appears as though the Department depended on DFA to be part of their system of internal control in these cases.
- The Department did not consistently file the approved purchase documents with the cash disbursements. Department personnel assumed that the purchase documents are approved as DFA would not make a disbursement without such approval.
- One or more people were responsible for, or had access to, the handling, recording, and distribution of cash disbursements.
- For 1 of 43 disbursements made subsequent to year end, no documentation was available to support the disbursement.

Criteria

DFA's Model of Accounting Practices (MAP) requires that Agencies provide for the segregation of duties between the custody, approval, and recording of cash disbursements. Purchases over \$1,500 must be approved by DFA.

Effect

There was an increased possibility of theft and an increased risk of misstatement due to fraud or error.

Cause

There was a high turn-over rate at the Department. During the prior administration duties were not being performed consistently and new employees did not receive appropriate training.

Recommendation

We recommend that Management introduce additional employees into the cash disbursement cycle to ensure adequate segregation of duties. Signed checks returned from DFA should be distributed someone other than the employee responsible for posting accounts payable. Management must also ensure that when a position involved in this process becomes vacant, the duties assigned to that position are still completed appropriately. It is essential that proper approvals exist at the internal department level and that all disbursements and purchase documents are clearly approved by an authorized individual.

Department Response

NMHED will take the following actions:

- Procedures for this process have been implemented subsequent to prior administration. These procedures will be reviewed by the ASDR and updated accordingly.
- There will an evaluation of segregation of duties by the ASDR and changes will be made accordingly.
- The ASDR has initiated a process that allows the ASDR and two back-ups in absence of the ASDR, to approve journal entries in the general ledger. The ASDR or back-up reviews all support for proper approval, support, etc. before approving.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-05 Capital Projects Accounting and Reporting (Material Weakness)

Condition

The following deficiencies in capital projects accounting and reporting were noted:

- Capital projects activity for the year were not properly accounted for and were not reconciled resulting in a net understatement of expenditures in the amount of \$3,658,710 (27 projects) and a net overstatement of revenues in the amount of \$2,910,169 (3 projects).
- At least 21 open projects with prior year balances totaling \$2,814,500 that were funded in previous years with state general fund appropriations were not included in the prior year's fund balance and part of that balance may not have been reverted to the State General Fund as required by law.
- For 7 of 13 capital projects expenditures tested, documentation supporting expenditures by project recipients was not adequate to determine that expenditures actually occurred and in what period they occurred.
- 10 of 12 capital project expenditures disbursed subsequent to year end amounting to \$3,152,485 were related to expenditures made during FY 2010, but were reported as expenses in FY 2011.

Criteria

The project funds expended in the FY10 were severance tax bond appropriations and, per Statement on Governmental Accounting Standards (GASB) No. 33, activity may only be recorded when eligibility requirements are met (i.e. project recipients have expended funds).

General fund appropriations that had not been spent should have been part of reserved fund balance.

Expenditures should have been supported by documentation adequate to determine that eligibility requirements were met and that the expenditures could have been recorded in the accounting period in which the services were rendered or the goods were received. Expenditures should have been recorded when incurred.

Effect

The capital projects were not properly recorded in the Department's financial statements.

Cause

Employee turnover in management positions and lack of training on behalf of the prior administration.

Recommendation

Management should ensure that financial reporting responsibilities and expectations are clearly communicated to employees, that positions are filled with persons meeting the qualifications for that position, and by developing a system of tracking and reconciling capital projects to facilitate financial reporting objectives.

**STATE OF NEW MEXICO
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YEAR ENDED JUNE 30, 2010**

2010-05 Capital Projects Accounting and Reporting - Continued

Department Response

NMHED will take the following actions:

- The executive team is evaluating the organization chart, job descriptions, and personnel.
- Personnel will be evaluated for qualifications and determination as to whether they are a good fit for their respective position and the Department as a whole.
- A system will be created to properly account for all capital projects by the ASDR.
- There will be an evaluation of segregation of duties by the ASDR and changes will be made accordingly.
- A reconciliation process will be created to ensure sub-ledger or other support agrees to the general ledger on a monthly basis.

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YEAR ENDED JUNE 30, 2010**

2010-06 Compliance with Travel and Per Diem Act (NMAC 2.2.2)

Condition

While performing tests of controls and compliance over travel and per diem, the following deficiencies were noted:

- Three out of six instances where the travel and per diem reimbursements/advances were not properly approved. In addition, when approvals are given via email, no documentation (electronic or paper) was retained as proof.
- Two out of six instances where there was not enough supporting documentation attached to certain reimbursement requests to determine if an event was actually attended. For example, disbursement packets included copies of the checks and receipts, but did not include proof of a meeting, conference or event.
- Four out of six disbursements included copies of receipts for meals that did not include enough detail to determine whether unallowable costs were reimbursed.

Criteria

NMAC 2.42.2

Effect

There is an increased risk of misstatement due to fraud or error.

Cause

The Department states that travel and per diem can be approved by email; however, the previous administration did not require approvals to be attached to the disbursement packet.

Recommendation

We recommend that the individual creating the purchase document in SHARE check for compliance with NMAC 2.42.2 before processing. Such individual must ensure that there is proper authorization documented by the requesting individual's supervisor or Division Director. Also, the individual requesting reimbursement/advance should attach proof of attending the event along with copies of detailed receipts and approval forms.

Department Response

NMHED will take the following actions:

- Procedures for this process have been implemented subsequent to prior administration. These procedures will be reviewed by the ASDR and updated accordingly.
- There will an evaluation of segregation of duties by the ASDR and changes will be made accordingly.
- The ASDR has initiated a process that allows the ASDR and two back-ups in absence of the ASDR, to approve journal entries in the general ledger. The ASDR or back-up reviews all support for proper approval, support, etc. before approving.

**STATE OF NEW MEXICO
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YEAR ENDED JUNE 30, 2010**

2010-07 Due Date of Audit Report (Material Weakness)

Condition

The June 30, 2010 audit report was not filed with the State Auditor by the applicable date noted in the contract. The report was not submitted until February 1, 2012.

Criteria

According to State Auditor Rule NMAC 2.2.2.9A, the audited financial statements are due by December 15 following the fiscal year-end, which would be December 15, 2010 for the year under audit.

Effect

The Department is not in compliance with State Auditor Rule NMAC 2.2.2.9A for the fiscal year ended June 30, 2010. The users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, oversight agencies, etc., do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on state and federal funding and the Department's internal budgeting.

Cause

Due to the prior administration, reconciliations and related adjustments related to significant assets and liabilities took an unusual amount of time to complete and record in the general ledger. Turnover in key financial and leadership positions hindered timely and accurate financial reporting.

Recommendation

We recommend the Department evaluate whether there are adequate personnel resources to produce a timely and accurate financial reporting and identify areas where additional training and procedures could be established.

Department Response

NMHED will take the following actions:

- The executive team is evaluating the organization chart, job descriptions, and personnel.
- Personnel will be evaluated for qualifications and determination as to whether they are a good fit for their respective position and the Department as a whole.
- The Administrative Services Division will adopt policies to ensure deadlines are met in the future.
- The ASDR will ensure going forward that policies and procedures are followed. A training class will be held for all members of the ASD to ensure proper communication of these policies and procedures.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-08 Prior Period Restatements (Material Weakness)

Condition

Material misstatements of prior year (fiscal year 2009) financial statement balances were noted during the FY10 audit as follows:

- The June 2009 proceeds from the New Mexico Lottery for the Lottery Tuition Fund in the amount of \$2,759,464 were not reported as accounts receivable (with associated revenue) at June 30, 2009. Similarly, the June 2010 proceeds in the amount of \$3,401,415 were not accrued as accounts receivable at June 30, 2010.
- The amount reverted to the State General Fund for the Department's unspent general fund appropriations for 2009 of \$119,627 was not accrued at June 30, 2009.
- Deferred revenue of \$80,000 was not recognized in FY 2007 when the program expenditures were made, meeting the revenue recognition requirements.
- Revenue and associated accounts receivable totaling \$274,438 were not recorded for cost reimbursement grant expenditures that occurred in the prior year.
- Capital projects were not tracked or reconciled leading to material misstatements in the 2009 financial statements, leading to restatement in the amount of \$2,714,052.

Criteria

GAAP requires that accounts receivable to be recorded for revenues earned, but not yet received. The revenues received from the New Mexico Lottery to fund scholarships are derived from lottery products sold in the previous month; therefore, proceeds received in July should be recorded as June (prior year) revenue.

Deferred revenue should be recognized in the period in which the related activities have occurred.

The revenues for cost reimbursement-type grants should be recognized when the expenditures under the grant occur.

GAAP requires that liabilities be accrued in the period in which they are incurred.

The Model of Accounting Practices (MAP) and NMAC 2.20.5.8C(7) require Agencies to reconcile subsidiary transactions to SHARE timely and accurately.

Effect

Improper cutoff of revenue and expenditures resulting in the material misstatement of accounts receivable, due to state general fund, fund balance, revenue, and reversion expense.

Cause

Inadequate review of financial statements and underlying data by the prior administration.

Recommendation

Management should review the revenue recognition criteria for all revenue (or other financing source) item in each fund to ensure that all revenue is recorded in the financial statements in the appropriate period.

Management should review the financial statements to ensure that all material liabilities are accrued at year end, especially for statutorily mandated reversions.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-08 Prior Period Restatements - Continued

Department Response:

NMHED will take the following actions:

- The ASDR will create a close process policy.
- The ASDR will close the books timely on a monthly, quarterly, and annual basis.
- The ASDR will create a close package that will be presented to the Secretary and Deputy Secretary which will include variance analyses comparing actuals to budget.
- The ASDR and team will analyze all accounts for reasonableness, accuracy and completeness monthly.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-09 Budgetary Compliance (NMAC 2.2.2)

Condition

The Department exceeded the budgeted expenditures in the following funds:

- College Affordability Endowment Fund (SHARE Fund 23900)
 - Contractual services - \$163,141
- Faculty Endowment Fund (SHARE Fund 47900)
 - Other financing uses - \$590,229
- Lottery Tuition Fund (SHARE Fund 63700)
 - Other costs - \$48,179
- Capital Projects (SHARE Fund 64400)
 - Other financing uses - \$7,744,983
- Program Development Fund (SHARE Fund 78200)
 - Other financing uses - \$171,337
- ARRA Fund (SHARE Fund 89000)
 - Other costs - \$43,125

Criteria

All funds are required to have an approved budget if there is an appropriation. Per 6-5-6 NMSA 1978, no warrant upon the state treasury for the disbursement of funds shall be issued except upon the determination of the division and the state agency that the amount of the expenditure does not exceed the appropriation made to the state agency.

Effect

Any public official or employee who shall violate provisions of this act [6-3-6, 6-3-8 NMSA 1978] shall be guilty of a felony and upon conviction thereof shall be punished by a fine of not more than ten thousand dollars (\$10,000) nor less than five hundred dollars (\$500) or imprisonment for a term of not more than ten years, or both, and in addition thereto, shall be liable for the payment to the state of all amounts expended for any payment made in violation thereof.

Cause

Inadequate monitoring of expenditures by the prior administration.

Recommendation

We recommend for all funds that receive an appropriation, budgets are monitored for compliance with state statute. We also recommend a comprehensive review of expenditures at year-end so timely budget adjustments may be requested accordingly, if applicable.

Department Response

NMHED will take the following actions:

- The ASDR will create a close package that will be presented to the Secretary and Deputy Secretary which will include variance analyses comparing actuals to budget.
- The ASDR and team will analyze all accounts for reasonableness, accuracy and completeness monthly.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-21 Untimely Reversions (NMAC 2.2.2)

Condition

The Department did not revert appropriations in excess of expenditures timely for the general fund in accordance with state statute. The reversion amount of \$2,157,804 was not reverted by September 30, 2010. It was not reverted until FY2012 after the audit was completed.

Criteria

Section 6-5-10(A) NMSA 1978 requires "all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30 to the general fund".

Effect

The State General Fund and Department of Finance and Administration (DFA) did not have accurate reversion information from the Department. This lack of timely information could have affected budgeting for FY11 and FY12.

Cause

The prior administration did not have accurate data in order to calculate the reversion in a timely manner.

Recommendation

We recommend the Department make efforts to close their books and make timely reversions by September 30 of each year. Any changes to the reversions from the Department's audit adjustments, if any, can be settled after the annual audit is complete.

Department Response

NMHED will take the following actions:

- The ASDR will work with Department Directors and Executive Team to complete the Department Audit, which includes the single audit, in a timely manner.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

III. FINDINGS IN ACCORDANCE WITH OMB CIRCULAR A-133

2010-10 Violation of the Governmental Conduct Act (Compliance)

**Funding Agency: U.S. Department of Education
College Access Challenge Grant CFDA 84.378A
Period 8/14/2008 – 8/13/2009
Questioned costs: \$47,500**

Condition

Under a prior administration the Department entered into a professional services contract with a company in which the spouse of a key employee had a substantial interest, without disclosing through public notice the employee's substantial interest and awarding the contract pursuant to a competitive process. The contract amount was \$47,500.

Criteria

The Governmental Conduct Act, 10-16-1 through 10-16-18 NMSA 1978 governs the conduct of public officers and employees. 10-16-7 NMSA 1978 specifically addresses contracts involving public officers and employees. OMB Circular A-133 requires grantees to follow all state law as well as federal compliance requirements.

Effect

The contract was not subject to open and fair competition. A public notice disclosing the relationship was not completed. The administration at that time disregarded statute regarding contracts with related parties.

Cause

The Department' prior administration may not have been aware of the Act.

Recommendation

We recommend the Department review all contracts for compliance with state law and federal compliance, if applicable, prior to executing.

Department Response and Corrective Action

NMHED will take the following actions:

- The ASDR will communicate finding to entire Department and will create a checklist for those that sign off on contracts. The checklist will be a reminder of the items that will need to be addressed prior to executing a contract.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-11 Data Collection Form-Late filing (Material Weakness) (All Programs)

Questioned costs: None

Condition

The Department did not file form SF-SAC (Data collection form), by the prescribed deadline of March 31, 2011. It was submitted after the audit report date of January 31, 2012.

Criteria

For all entities that undergo a single audit, standard form SF-SAC is required to be submitted to the federal clearinghouse to summarize the single audit results. OMB A-133 section 320 (a) requires the report to be submitted within 9 months of the date of the audit period (March 31, 2011) or within 30 days after the audit is issued, whichever is earlier.

Effect

The Department was not in compliance with the filing deadline of the SF-SAC to the federal clearinghouse pursuant to A-133 standards.

Cause

The audited financial statements for the Department were not submitted to the Office of the State Auditor until past the stated deadline. A completed audit forms the basis for filing the SF-SAC. The audit was late due to several accounts that required additional time to reconcile and additional time to make correcting journal entries as a result of the prior administration.

Recommendation

We recommend that the Department review and reconcile the federal funds timely and work closely with our staff for fiscal year 2011 to prevent a reoccurrence of this finding.

Department Response and Corrective Action

NMHED will take the following actions:

- The ASDR will issue a policy to reconcile the federal funds on a monthly basis.
- The ASDR will work with Department Directors and Executive Team to complete the Department Audit, which includes the single audit, in a timely manner eliminating the need to file the SF-SAC form.
- The ASDR has built a good relationship with the Atkinson auditors. The ASDR will work with the auditors in the future to provide timely and accurate information.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

**2010-12 Schedule of Expenditures of Federal Awards Preparation
(Significant Deficiency) (All Programs)**

Questioned Costs

None

Condition

The Schedule of Expenditures of Federal Awards (SEFA) which was prepared by the Department, had several errors and was missing 3 federal programs.

Criteria

Per 6-5-2C NMSA 1978, State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

The SEFA was incomplete and expenditures had to be adjusted for several programs. The major program determination had to be revised several times during the course of the audit.

Cause

The Department did not prepare the SEFA from the correct source documentation. Payables were not considered when preparing the SEFA. Federal programs were not identified as such when preparing the SEFA.

Recommendation

We recommend the Department centralize the monitoring and reporting process for federal funds and assign personnel who are knowledgeable about federal grants and compliance requirements. The SEFA should be prepared by someone who possesses the necessary skills and knowledge.

Department Response and Corrective Action:

NMHED will take the following actions:

- The executive team is evaluating the organization chart, job descriptions, and personnel.
- Personnel will be evaluated for qualifications and determination as to whether they are a good fit for their respective position and the Department as a whole.
- The SEFA will be prepared by someone who possesses the necessary skills and knowledge.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-13 Cash Management Controls and Compliance (Significant Deficiency/Compliance)

**Funding Agency: U.S. Department of Education
College Access Challenge Grant CFDA 84.378A
Period 8/14/2008 – 8/13/2009**

**Funding Agency: U.S. Department of Education
Title: Byrd Honors Scholarships CFDA Number: 84.185
Period 7/1/2009 – 6/30/2010**

Questioned costs: Accrued interest – amount unknown

Condition

The Department drew down funds for the College Access Challenge Grant and Byrd Honors Scholarship that were in excess of immediate cash needs. In FY09, the Department drew down \$556,798 for CACG. The Department did not spend that entire amount until FY11, almost 2 years after drawing down the funds. In FY10, the Department drew down \$231,000 for Byrd. The Department did not spend \$6,750 of that within the time frame required by federal regulations.

The Department does not approve drawdowns consistently. Of the 2 drawdowns tested under this grant, one did not have the proper approvals prior to requesting the reimbursement.

Criteria

Per CFR 34.80.20(7), Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Internal controls and the Model of Accounting Practices require the proper approvals for all transactions of the agency.

Effect

Interest income on the funds will need to be paid back to the federal government. Employees were not obtaining authorization for transactions that require management approval.

Cause

The funds were requested during the prior administration by someone without knowledge of federal regulations regarding cash management. There was so much turnover in management that approvals during the prior administration were very inconsistent.

Recommendation

We recommend the Department calculate the amount of interest owed to the federal government and remit as soon as possible. We also recommend the Department cease the practice of drawing down funds without adequate support showing immediate cash needs. Authority for authorizations and approvals should be established and followed.

Department Response and Corrective Action

NMHED will take the following actions:

- The department is on a reimbursement basis and only draws federal money after it has been spent.
- The ASDR will begin reviewing all drawdowns to assure no federal funds are drawn without the supporting expenditure.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-14 Period of Availability (Compliance/Significant Deficiency)

**Funding Agency: U.S. Department of Education
College Access Challenge Grant CFDA 84.378A
Period 8/14/2008 – 8/13/2009**

Questioned costs: \$14,186.73

Condition

The original funding period for the College Access Challenge Grant was 8/14/2008 – 8/13/2009. The Department received an extension from the U. S. Department of Education to spend the funds through 8/13/2010. However, there were expenditures charged to this grant in September and December of 2010, totaling \$14,186.73.

Criteria

Per CFR 34.80.23(a), Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Effect

The Department expended funds beyond the approved period of availability, resulting in potential questioned costs.

Cause

The prior administration failed to follow federal regulations and adhere to the grantor's extension period.

Recommendation

We recommend the Department develop controls to prevent spending funds beyond the period of availability for each federal program. Management should monitor federal grant spending to ensure funds are spent or obligated prior to the end of each grant period.

Department Response and Corrective Action

NMHED will take the following actions:

- The ASDR will communicate to Department the significance of adhering to federal regulations and grant funding dates.
- Personnel will be evaluated for qualifications and determination as to whether they are a good fit for their respective position and the Department as a whole.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-15 Allowable Costs (Significant Deficiency)

**Funding Agency: U.S. Department of Education
College Access Challenge Grant CFDA 84.378A
Period 8/14/2008 – 8/13/2009**

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs CFDA 84.334
Period 7/21/2009 – 7/20/2010**

Questioned costs: Unknown

Condition

During our testing of payroll disbursements charged to major programs, we noted that 1 of 5 timesheets tested under the CACG program had a different amount of hours than what was posted to the general ledger and subsequently charged to the federal program. 1 of 10 timesheets tested under the GEAR-UP program was missing and not provided by the Department.

Criteria

Attachment B to Circular OMB A-87, Section 8h(1) states :” Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.”

Effect

We could not determine whether the employee worked the hours claimed and charged to a federal program.

Cause

The prior administration did not adhere to Model Accounting Practices regarding payroll documentation.

Recommendation

We recommend the Department develop procedures to accurately report payroll to federal grantors. This includes reconciling timesheets to other payroll records, and adhering to record retention requirements.

Department Response and Corrective Action

NMHED will take the following actions:

- The Administrative Services Division will adopt policies to accurately report payroll to federal grantors.
- Reconciliations will be performed on a monthly basis to ensure accuracy of expenses.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-16 Procurement, Suspension and Debarment (Compliance)

**Funding Agency: U.S. Department of Education
College Access Challenge Grant CFDA 84.378A
Period 8/14/2008 – 8/13/2009**

Questioned costs: None

Condition

We noted 4 of 4 professional services contracts tested charged to the CACG program in FY10 where there was no evidence of procurement, suspension and debarment compliance. Each contract was for over \$25,000.

Criteria

Government-wide requirements for non-procurement suspension and debarment are contained in the OMB guidance in 2 CFR part 180. Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria.

Effect

The Department, by not documenting compliance with this requirement, could not substantiate whether the vendors they contracted with were excluded parties. Potential questioned costs could result from disbursing federal funds to an excluded party. The three contracts reviewed were not with excluded parties.

Cause

There was no documentation available to determine whether management reviewed the excluded parties listing prior to contracting with these vendors.

Recommendation

The Department should document their assessment of excluded parties with each contract file to show compliance.

Department Response and Corrective Action

NMHED will take the following actions:

- The Financial Aid Division now (besides checking the website) requires the form for procurement, suspension and debarment with each professional services contract. Financial aid also attaches a printed copy from the website search.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-17 Federal Grant Reporting (Compliance/Significant Deficiency)

**Funding Agency: U.S. Department of Education
Title: College Access Challenge Grant, CFDA Number: 84.378
Period 8/14/2008 – 8/13/2009**

**Funding Agency: U.S. Department of Education
Title: Leveraging Education Assistance Partnership/Special Leveraging Education Assistance Partnership CFDA Number: 84.069
Period 7/1/2009 – 6/30/2010**

Questioned Costs: None

Condition

During our testing of all reporting requirements with respect to the College Access Challenge Grant Program (CACG), we were unable to obtain evidence to determine whether the required Program Annual Performance Report part 2 was submitted to the Department of Education before the required deadline. The reporting package for the period of August through April 2009 was due by August 31, 2009. Also, during our testing of all reporting requirements of the CACG Program, we identified one out of two reports tested where the Program Annual Performance Report was not approved. The College Access Challenge Grant Program Annual Performance Report part 2, for the reporting period August 2009 through April 2009 did not have evidence of approval.

During our testing of all reporting requirements with respect to the Leveraging Education Assistance Partnership and Special Leveraging Education Assistance Partnership (LEAP/SLEAP), we identified one instance in which the Annual Programs Performance Report for the Award Year 2009-2010 was not accurately completed. We were unable to obtain supporting documentation that agreed to the information in the report. Also, during our testing of all reporting requirements of the LEAP/SLEAP program, we identified one instance where the Program Performance Report was not internally approved by an individual other than the individual who submitted the report.

Criteria

According to the U.S. Code of Federal Regulations, 34 CFR part 80 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) §80.20, grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities and must be supported by source documentation. Also, financial information must be related to performance or productivity data. Per § 80.20 grantees must maintain effective control and accountability. Also, the Model of Accounting Practices (MAP) strategic objectives requires state agencies to implement internal controls designed to prevent accounting errors and violation of state and federal law and rules related to financial matters.

Effect

There was an increased possibility the program would not be able to continue to receive funding if compliance requirements were not met.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-17 Federal Grant Reporting (Compliance/Significant Deficiency) – Continued

Cause

The Department of Higher Education was not able to provide evidence of timely submission of reports due to decentralized accounting records. During the prior administration the Department kept pertinent grant documentation in the archived emails. Also, during the prior administration the Department did not require approval of report submissions as the Financial Aid Director usually completed and submitted the reports.

Recommendation

Program management and those charged with the responsibility of preparing and submitting the reporting package should ensure that another authorized individual reconciles the reporting information to the accounting records and reviews the accuracy of the reporting information prior to submission. Also, we recommend that the Department maintains centralized accounting records. This would ensure that all pertinent grant information is safeguarded and readily accessible.

Department's Response and Corrective Action

NMHED will take the following actions:

- Printed copies are made of all submissions by the Financial Aid Division in the event of staff turnover.
- Financial Aid Director signs off on subsequent reports.
- NMHED financial aid works with institutional auditor to make sure that sub-recipients audits are completed and any issues are addressed.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-18 Federal Grant Monitoring (Compliance/Significant Deficiency)

Funding Agency: U.S. Department of Education

Title: Leveraging Education Assistance Partnership/Special Leveraging Education Assistance Partnership (LEAP/SLEAP) CFDA Number: 84.069

Period 7/1/2009 – 6/30/2010

Questioned Costs: None

Condition

During our testing of sub-recipient monitoring requirements with respect to the LEAP/SLEAP, we identified a lack of documentation to show adequate sub-recipient monitoring. We identified 2 out of 5 sub-recipients tested where the Department's monitoring reports were unable to be located. Of the reports that were provided, zero out of three reports contained detailed information that proved that the Department searched for compliance with the LEAP/SLEAP program specifically. We also noted that the Department did not collect audit reports from the sub-recipients. During our testing of sub-recipient monitoring, we also noted that the Department did not approve the LEAP/SLEAP award recipients. Instead the institutions of higher education were given the responsibility.

Criteria

According to the U.S. Code of Federal Regulations, 34 CFR part 80 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) §80.40, grantees are responsible for monitoring subgrant supported activities to assure compliance with applicable Federal requirements. Also the FSA Handbook for State Grant Programs states that it is the State Agency's responsibility to select and approve the LEAP recipients. The OMB Circular A-133 Compliance Supplement requires pass-through entities to ensure that sub-recipient audits were completed and to follow up on any findings within 6 months after receipt of the audit reports.

Effect

Since a process to monitor sub-recipients throughout the year was not established, there was a risk that the sub-recipients were not in compliance with Federal Regulations, which could prevent the program from receiving funding.

Cause

The Department relied on the annual Data Collection Reports to monitor institutions of higher education; however, did not ensure that specific grant compliance requirements were monitored. The Department did not have centralized record keeping during the prior administration, which caused pertinent grant information to be misplaced.

Recommendation

Program management should establish a policy that requires specific sub-recipient monitoring for each grant program (if required). Therefore, the Data Collection Reports would specifically state what requirements were tested and any findings related to such requirements. We also recommend that the Department obtain audited financial statements from the sub-recipients and respond to any findings within 6 months of the receipt of any report. We recommend that the Department require the institutions of higher education to provide the Department with sufficient information needed for a formal approval of recipient awards. This will enable to the Department to select the award recipients and document their decision.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-18 Federal Grant Monitoring (Compliance/Significant Deficiency) – Continued

Department's Response and Corrective Action

NMHED will take the following actions:

- Procedures for this process have been implemented subsequent to prior administration. These procedures will be reviewed by the ASDR and updated accordingly.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-19 Federal Grant Level of Effort (Compliance)

Funding Agency: U.S. Department of Education

Title: Leveraging Education Assistance Partnership/Special Leveraging Education Assistance Partnership (LEAP/SLEAP) CFDA Number: 84.069

Period 7/1/2009 – 6/30/2010

Questioned costs: None

Condition

During our testing of the Level of Effort requirements with respect to the LEAP/SLEAP program, we identified that the amount that the State expended during fiscal year 2010 for grants under the LEAP Program did not equal to an amount that is not less than the average annual aggregate expenditures for the preceding three fiscal years.

Criteria

According to the U.S. Code of Federal Regulations, 34 CFR part 692 (Leveraging Education Assistance Partnership Program) §692.21, a State agency must provide for State expenditures under the State program an amount that is not less than the average annual aggregate expenditures for the three preceding fiscal years.

Effect

With non-compliance, there was an increased possibility that a negative effect on funding.

Cause

There appeared to be a lack of policy and documentation of the level of effort requirements under the Leveraging Education Assistance Partnership Program.

Recommendation

We recommend the Department review their policies regarding maintenance of effort calculations and documentation.

Department's Response and Corrective Action:

NMHED will take the following actions:

- Procedures for this process have been implemented subsequent to prior administration. These procedures will be reviewed by the ASDR and updated accordingly. Also, LEAP/SLEAP was program unfunded by the Department of Education in 2011.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

2010-20 Eligibility (Compliance)

Funding Agency:

Title: Byrd Honors Scholarships CFDA Number: 84.185

Period 7/1/2009 – 6/30/2010

Funding Agency: U.S. Department of Health and Human Services

Title: State Loan Repayment Program CFDA Number: 93.165

Period 7/1/2009 – 6/30/2010

Questioned costs: Unknown

Condition

Out of 23 students tested for eligibility under the Byrd Honors Scholarship program, one file did not have documentation of a transcript to document satisfactory academic progress, and one file showed a student with a 2.12 grade point average, which does not meet satisfactory academic progress standards. Out of 5 beneficiaries of the State Loan Repayment Program (SLRP) tested, we noted 5 had no evidence of U.S. citizenship, one had no evidence of a license to practice an eligible discipline and had no signed or approved contract, and one was not licensed to practice in New Mexico,

Criteria

The continuing eligibility criteria is published in Volume 9 – State Grant Programs, Chapter 2 on Byrd Honors Scholarships, published by the U.S. Department of Education. The National Health Service Corps (NHSC) Loan Repayment Program (LRP) guidance issued by the U.S. Department of Health and Human Services has specific eligibility requirements for loan repayment programs, including verification of U.S. citizenship, the requirement to be licensed in the state where the NHSC-approved service site is located, and contract requirements.

Effect

The students may not have been eligible to receive awards under federal regulations, which may have caused questioned costs and/or had a negative effect on funding.

Cause

During the prior administration there was significant turnover and lack of policies in FY10 which affected compliance.

Recommendation

We recommend the Department establish policies and responsibilities for federal compliance.

Department's Response and Corrective Action

NMHED will take the following actions:

- Procedures for this process have been implemented subsequent to prior administration. These procedures will be reviewed by the ASDR and updated accordingly. Also, program was unfunded by the Department of Education beginning in 2011.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OTHER DISCLOSURES
YEAR ENDED JUNE 30, 2010**

PREPARATION OF FINANCIAL STATEMENTS

The audited financial statements were prepared by the Department's management with the assistance of Atkinson & Co., Ltd.

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 January 31, 2012, 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. Jose Z. Garcia, Cabinet Secretary

Glenn Walters, Deputy Cabinet Secretary

Jennifer Moseley, Administrative Services Director/Chief Financial Officer

Karen Kennedy, Financial Aid Director

Dyanne Salazar, Education Administrator

Vera Lyons, Budget Analyst

Atkinson CPAs Audit Firm

Marty Mathisen, CPA, CGFM, Audit Director

James Hartogensis, CPA, CGFM, Audit Senior Manager

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