



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011**

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

atkinson

PRECISE. PERSONAL. PROACTIVE.

INTRODUCTORY SECTION

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

| INTRODUCTORY SECTION | <u>PAGE</u> |
|--|--------------------|
| TABLE OF CONTENTS..... | i-ii |
| OFFICIAL ROSTER..... | iii |
| FINANCIAL SECTION | |
| INDEPENDENT AUDITORS' REPORT..... | iv-v |
| MANAGEMENT'S DISCUSSION AND ANALYSIS..... | vi-x |
| BASIC FINANCIAL STATEMENTS: | |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS: | |
| STATEMENT OF NET ASSETS..... | 1 |
| STATEMENT OF ACTIVITIES..... | 2 |
| FUND FINANCIAL STATEMENTS: | |
| BALANCE SHEET..... | 3 |
| RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS – GOVERNMENTAL FUNDS..... | 4 |
| STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS..... | 5 |
| RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS..... | 6 |
| STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL: | |
| MAJOR GOVERNMENTAL FUNDS | |
| GENERAL FUND (FUND 91000)..... | 7 |
| FINANCIAL AID PROGRAMS (FUND 21600)..... | 8 |
| LOTTERY TUITION FUND (FUND 63700)..... | 9 |
| CAPITAL PROJECTS FUND (FUND 64400)..... | 10 |
| AMERICAN RECOVERY AND REINVESTMENT ACT (FUND 89000)..... | 11 |
| STATEMENT OF FIDUCIARY NET ASSETS..... | 12 |
| STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS..... | 13 |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

| | |
|---|-------|
| NOTES TO FINANCIAL STATEMENTS | 14-37 |
| MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS | 38-42 |
| NON-MAJOR GOVERNMENTAL FUNDS: | |
| NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS | 43-44 |
| COMBINING BALANCE SHEET – NON-MAJOR FUNDS | 45 |
| COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS | 46 |
| STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL: | |
| NON-MAJOR GOVERNMENTAL FUNDS | |
| ABE INSTRUCTIONAL MATERIALS (FUND 10990) | 47 |
| COLLEGE AFFORDABILITY SCHOLARSHIP (FUND 21700) | 48 |
| COLLEGE GOAL SUNDAY GRANT (FUND 29200) | 49 |
| POST-SECONDARY EDUCATIONAL INSTITUTIONAL FUND (FUND 34400) | 50 |
| FACULTY ENDOWMENT FUND (FUND 47900) | 51 |
| HIGHER EDUCATION PERFORMANCE (FUND 54500) | 52 |
| PROGRAM DEVELOPMENT ENHANCEMENT (FUND 78200) | 53 |
| ENDOWED MERIT SCHOLARSHIP FUND (FUND 88100) | 54 |
| CAPITAL PROJECTS FY2011 (FUND 89200) | 55 |
| SUPPLEMENTAL INFORMATION | |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 56 |
| 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 | |
| | 57-58 |
| 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 | |
| | 59-60 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS (FEDERAL AWARD PROGRAMS AND PERTAINING TO FINANCIAL STATEMENTS) | 61-85 |
| OTHER DISCLOSURES | 86 |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OFFICIAL ROSTER
AS OF JUNE 30, 2011**

ADMINISTRATIVE OFFICIALS

| <u>Name</u> | <u>Title</u> |
|---------------------------|--|
| Dr. Jose Garcia | Cabinet Secretary |
| Glenn Walters..... | Deputy Cabinet Secretary |
| Robert Watson | Chief Financial Officer |
| Dr. Harrison Rommel..... | 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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INDEPENDENT AUDITORS' REPORT

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, 2011, 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, 2011, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011, 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 \$17,580,898 and related loans forgiven due to the condition of the records.

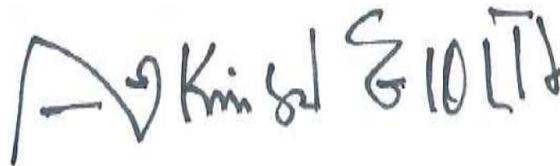
In our opinion, except for the effects of such adjustments, if any, that might have been necessary had we been able to satisfy ourselves about loan for service balances and the corresponding loans forgiven (other expense) amounts reported in the financial statements, the financial statements referred 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, 2011, and the respective changes in financial position, thereof and the respective budgetary comparisons for the general fund and the major 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, 2011, 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.

The Department implemented Governmental Accounting Standards Board (GASB) Opinion No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in FY11. This standard affects governmental fund balance reporting and classifications as detailed in Notes 2. O and 20.

In accordance with Governmental Auditing Standards, we have also issued our report dated April 27, 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 vi through x 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 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 expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish to the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 27, 2012

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Introduction

The New Mexico Higher Education Department (Department) herewith presents its financial statements and required supplementary information for the year ended June 30, 2011. 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 \$2.8 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, 2011**

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 2010, decreasing from \$90 million to \$77 million, which represented an (-19.5) percent change. The table below illustrates the department condensed statement of net assets:

Detail of Department Condensed Net Assets as of June 30, 2011 and 2010 (thousands)

| | <u>2011</u> | <u>2010</u> | <u>Change</u> |
|---|------------------|------------------|--------------------|
| Assets: | | | |
| Current assets | \$ 72,359 | \$ 84,436 | \$ (12,077) |
| Non-current assets | 17,581 | 17,608 | (27) |
| Capital assets, net of accumulated depreciation | 146 | 173 | (27) |
| Total assets | <u>90,086</u> | <u>102,217</u> | <u>(12,131)</u> |
| Liabilities: | | | |
| Current liabilities | 14,309 | 11,659 | 2,650 |
| Compensated absences | 114 | 136 | (22) |
| Total liabilities | <u>14,423</u> | <u>11,795</u> | <u>2,628</u> |
| | | | |
| Total assets and liabilities | <u>75,662</u> | <u>90,422</u> | <u>(14,760)</u> |
| Net Assets: | | | |
| Investments in capital assets, net of debt | 146 | 173 | (27) |
| Restricted | 75,630 | 90,385 | (14,755) |
| Unrestricted | (114) | (136) | 22 |
| Total net assets | <u>\$ 75,662</u> | <u>\$ 90,422</u> | <u>\$ (14,760)</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Discussion of Statement of Activities

Current accounting standards require that "functional" expenses of \$10 million and "program" revenues of \$37 million be segregated from "general" revenues and expenses. It should be noted that state General Fund appropriations consisted of \$39.4 million for program operations. The \$39.4 million for program operations has been distributed as 1.) \$22.9 million for Student Financial Aid programs, 2.) \$13.3 million for programs expenses, and 3.) \$3.2 million for performance development enhancement. Total program revenues increased from the previous year by \$26 million and functional expenses increased by \$2.1 million.

General (Operating) Fund:

State General Fund appropriations to NMHED decreased \$2.4 million in fiscal year 2011 from fiscal year 2010. The decrease of funding was due to State Budget cuts.

Capital Projects Fund:

Total capital project expenditures for other entities were \$22.7 million and \$35 million for fiscal years 2011 and 2010, respectively.

Financial Aid Fund:

Combined financial aid contributed in grants and other financing expenditures to the statewide institutions were \$24.6 million and \$27.1 million for fiscal years 2011 and 2010, respectively. There was no significant change in financing uses.

Loan bad debt and loans forgiven expenditures were \$0 and \$4.3 million for fiscal years 2011 and 2010, 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 \$41 million and \$44 million for fiscal years 2011 and 2010, respectively. Interest earnings on investments were \$122 thousand and \$102 thousand for fiscal years 2011 and 2010, 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 \$53 million and \$47 million for fiscal years 2011 and 2010, respectively.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

State-wide Institutional Distributions:

For fiscal year 2011, the Department distributed \$147 million consisting primarily of 1.) \$43 million in grants, 2.) \$52 million in lottery proceeds, 3.) \$15.5 million in financial aid, 4.) \$32 million in program expenses and 5.) \$5 million in capital projects.

Statement of Activities as of June 30, 2011 and 2010 (thousands)

| | <u>2011</u> | <u>2010</u> | <u>Change</u> |
|---|------------------|------------------|------------------|
| Functional expenses: | | | |
| General governmental | \$ 10,106 | \$ 8,018 | \$ (2,088) |
| Total functional expenses | <u>10,106</u> | <u>8,018</u> | <u>(2,088)</u> |
| Program revenues: | | | |
| Program revenues | <u>36,800</u> | <u>10,769</u> | <u>26,031</u> |
| Total program revenues | <u>36,800</u> | <u>10,769</u> | <u>26,031</u> |
| Net revenue | <u>26,694</u> | <u>2,751</u> | <u>23,943</u> |
| General revenues (expenses): | | | |
| General revenues (expenses) | (39,962) | (10,714) | (29,248) |
| Reversions: | | | |
| Fiscal year - 2010 | - | (239) | 239 |
| Fiscal year - 2011 | <u>(1,671)</u> | <u>(3,005)</u> | <u>1,334</u> |
| Total general revenues (expenses) | <u>(41,633)</u> | <u>(13,958)</u> | <u>(27,675)</u> |
| Investment earnings | 148 | 134 | 14 |
| Interest on loans | 31 | 55 | (24) |
| Loans forgiven - Principal | - | (4,384) | 4,384 |
| Total other investment incomes (expenses) | <u>179</u> | <u>(4,195)</u> | <u>4,374</u> |
| Change in net assets | <u>(14,760)</u> | <u>(15,402)</u> | <u>642</u> |
| Net assets beginning of year, previously stated | 90,422 | 98,995 | (8,573) |
| Restatements | - | 6,829 | (6,829) |
| Net assets beginning of year, Restated | <u>90,422</u> | <u>105,824</u> | <u>15,402</u> |
| Net assets, ending | <u>\$ 75,662</u> | <u>\$ 90,422</u> | <u>\$ 16,044</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 2011, the Department's capital assets, consisting of equipment, furniture, fixtures, and vehicles, had a net book value of \$145,781 (\$557,839 cost less \$412,058 accumulated depreciation). Depreciation expense for the year was \$27,238.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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 Department 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 \$4.6 million less than budgeted, primarily reflecting a reduction in miscellaneous expenses. The general fund appropriation on a modified accrual basis is \$857.6 thousand higher than the final budget.

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 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, 2011**

| | Governmental Activities |
|---|------------------------------------|
| <u>Assets</u> | |
| Current assets: | |
| Interest in SGFIP | \$ 54,915,607 |
| Due from other state agencies | 11,918,186 |
| Due from federal government | 5,459,079 |
| Accounts receivable | 65,098 |
| Prepaid expenses | 570 |
| Total current assets | 72,358,540 |
| Noncurrent assets: | |
| Loans and interest receivable (net of allowance for doubtful accounts) | 17,580,898 |
| Capital assets | 557,839 |
| Less: accumulated depreciation | (412,058) |
| Total noncurrent assets | 17,726,679 |
| Total assets | \$ 90,085,219 |
| <u>Liabilities</u> | |
| Accounts payable | \$ 7,159,525 |
| Interest in SGFIP overdraft | 12,578 |
| Accrued payroll liabilities | 192,098 |
| Due to project recipients | 4,219,284 |
| Due to other state or local agencies | 2,725,894 |
| Compensated absences: | |
| Due within one year | 113,986 |
| Total liabilities | 14,423,365 |
| <u>Net Assets</u> | |
| Invested in capital assets | 145,781 |
| Restricted | 75,630,059 |
| Unrestricted Deficit | (113,986) |
| Total net assets | 75,661,854 |
| Total liability and net assets | \$ 90,085,219 |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

| Primary Government Functions/Programs | Expenses | Program Revenues | | Net (Expenses) Revenue and Changes in Net Assets |
|---|----------------------|-------------------------------------|--|---|
| | | Fees and Charges for Services | Operating Grants and Contributions | |
| Governmental activities: | | | | |
| General governmental | \$ 2,755,311 | \$ - | \$ - | \$ (2,755,311) |
| Depreciation | 16,679 | - | - | (16,679) |
| Programs activities: | | | | |
| General governmental | - | - | - | - |
| ARRA | 100,000 | - | 25,521,713 | 25,421,713 |
| IDEAL NM | 1,166,249 | - | - | (1,166,249) |
| Adult Basic Education | 582,459 | - | 3,830,788 | 3,248,329 |
| Veterans State Approving Agency | 175,878 | - | 175,878 | - |
| GEAR-UP | 2,432,454 | - | 4,413,939 | 1,981,485 |
| College Access Challenge | 1,108,004 | - | 1,108,004 | - |
| GEAR-UP-Depreciation | 10,559 | - | - | (10,559) |
| Achieving the Dream | 28,981 | - | - | (28,981) |
| No Child Left Behind | - | - | 675,323 | 675,323 |
| Wallace Foundation | - | - | 41,760 | 41,760 |
| Financial Aid | 1,648,849 | - | 819,694 | (829,155) |
| Lottery | - | - | - | - |
| Other Funds | 80,355 | 212,506 | - | 132,151 |
| Total primary government | \$ 10,105,778 | \$ 212,506 | \$ 36,587,099 | 26,693,827 |
| General revenues and transfers: | | | | |
| State General Fund appropriations | | | | 39,412,900 |
| Bond proceeds | | | | 22,791,820 |
| Lottery proceeds | | | | 41,307,290 |
| Other financing sources | | | | 3,524,862 |
| Other financing (uses) | | | | (147,244,163) |
| Miscellaneous revenue | | | | 245,152 |
| Total general revenues and transfers | | | | (39,962,139) |
| Other investment incomes/expenses: | | | | |
| Investment earnings | | | | 148,281 |
| Interest on loans | | | | 30,774 |
| Total other investment income/expenses | | | | 179,055 |
| Reversions: | | | | |
| Fiscal year | | | | (1,670,989) |
| Total reversions | | | | (1,670,989) |
| Change in net assets | | | | (14,760,246) |
| Net assets, beginning of year | | | | 90,422,100 |
| Net assets, end of year | | | | \$ 75,661,854 |

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, 2011**

| | 91000 | 21600 | 63700 | 64400 | 89000 | | |
|--|---------------------|----------------------|----------------------|---------------------|----------------------------------|---------------------|-----------------------|
| | General | Financial | Lottery | Capital | American | Other | Total |
| | Fund | Aid | Tuition | Projects | Recovery and Reinvestment Act | Funds | Governmental Funds |
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Interest in SGFIP | \$ 2,097,549 | \$ 1,492,200 | \$ 47,114,875 | \$ 2,043,484 | \$ - | \$ 2,167,499 | \$ 54,915,607 |
| Due from other state agencies | - | 500,180 | 6,523,591 | 3,286,347 | 1,478,021 | 130,047 | 11,918,186 |
| Due from federal government | 3,486,887 | 928,847 | - | - | 1,043,345 | - | 5,459,079 |
| Due from other funds | 367,457 | - | - | - | - | - | 367,457 |
| Accounts receivable | 31,178 | 490 | 12,000 | - | - | 21,430 | 65,098 |
| Prepaid expenses | 570 | - | - | - | - | - | 570 |
| Total current assets | 5,983,641 | 2,921,717 | 53,650,466 | 5,329,831 | 2,521,366 | 2,318,976 | 72,725,997 |
| Non-current assets: | | | | | | | |
| Loans and interest receivable (net of allowance for doubtful accounts) | - | 17,580,898 | - | - | - | - | 17,580,898 |
| Total non-current assets | - | 17,580,898 | - | - | - | - | 17,580,898 |
| Total assets | <u>\$ 5,983,641</u> | <u>\$ 20,502,615</u> | <u>\$ 53,650,466</u> | <u>\$ 5,329,831</u> | <u>\$ 2,521,366</u> | <u>\$ 2,318,976</u> | <u>\$ 90,306,895</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities: | | | | | | | |
| Vouchers payable | \$ 3,070,301 | \$ 221,197 | \$ (1,214) | \$ 1,535,239 | \$ 2,328,787 | \$ 5,215 | \$ 7,159,525 |
| Interest in SGFIP overdraft | - | - | - | - | 12,578 | - | 12,578 |
| Accrued payroll liabilities | 186,876 | - | - | - | - | 5,222 | 192,098 |
| Due to other funds | - | 367,457 | - | - | - | - | 367,457 |
| Due to other state agencies | 2,725,894 | - | - | - | - | - | 2,725,894 |
| Due to project recipient | - | - | - | 3,909,676 | 180,001 | 129,607 | 4,219,284 |
| Total liabilities | 5,983,071 | 588,654 | (1,214) | 5,444,915 | 2,521,366 | 140,044 | 14,676,836 |
| Fund Balances: | | | | | | | |
| Nonspendable: | | | | | | | |
| Prepaid expenses | 570 | - | - | - | - | - | 570 |
| Restricted | - | 19,913,961 | 53,651,680 | - | - | 2,178,932 | 75,744,573 |
| Committed | - | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - |
| Unassigned | - | - | - | (115,084) | - | - | (115,084) |
| Total fund balance | 570 | 19,913,961 | 53,651,680 | (115,084) | - | 2,178,932 | 75,630,059 |
| Total liabilities and fund balance | <u>\$ 5,983,641</u> | <u>\$ 20,502,615</u> | <u>\$ 53,650,466</u> | <u>\$ 5,329,831</u> | <u>\$ 2,521,366</u> | <u>\$ 2,318,976</u> | <u>\$ 90,306,895</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2011**

Total fund balances for the governmental funds (Balance Sheet) \$ 75,630,059

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>(412,058)</u> |

| | | |
|--------------------------|--|---------|
| Total net capital assets | | 145,781 |
|--------------------------|--|---------|

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>(113,986)</u> |
|---|--|------------------|

Total net assets - government-wide activities (Statement of Net Assets) \$ 75,661,854

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

| | 91000 | 21600 | 63700 | 64400 | 89000 | | Total |
|--|---------------|---------------|---------------|--------------|----------------|--------------|---------------|
| | General | Financial | Lottery | Capital | American | Other | Governmental |
| | Fund | Aid | Tuition | Projects | Recovery and | Funds | Funds |
| | | | | | Investment Act | | |
| Revenues: | | | | | | | |
| Federal sources | \$ 10,203,932 | \$ 819,694 | \$ - | \$ - | \$ 25,521,713 | \$ - | \$ 36,545,339 |
| Licenses, permits and fees | - | - | - | - | - | 212,506 | 212,506 |
| Lottery proceeds | - | - | 41,307,290 | - | - | - | 41,307,290 |
| Interest on investments | - | 16,844 | 121,685 | - | - | 9,752 | 148,281 |
| Interest on loans | - | 30,774 | - | - | - | - | 30,774 |
| Miscellaneous revenue | 221,663 | 5,960 | 8,559 | - | - | 8,968 | 245,150 |
| Other grants | 41,760 | - | - | - | - | - | 41,760 |
| Total revenues | 10,467,355 | 873,272 | 41,437,534 | - | 25,521,713 | 231,226 | 78,531,100 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Personal services and employee benefits | 3,268,410 | - | - | - | - | 76,928 | 3,345,338 |
| Contractual services | 3,711,865 | 54,562 | - | - | - | - | 3,766,427 |
| Other | 1,290,563 | 1,594,287 | - | - | 100,000 | 3,427 | 2,988,277 |
| Total expenditures | 8,270,838 | 1,648,849 | - | - | 100,000 | 80,355 | 10,100,042 |
| Excess (deficiency) of revenues over expenditures | 2,196,517 | (775,577) | 41,437,534 | - | 25,421,713 | 150,871 | 68,431,058 |
| Other financing sources (uses): | | | | | | | |
| State General Fund appropriations | 13,352,600 | 22,856,500 | - | - | - | 3,203,800 | 39,412,900 |
| Bond proceeds appropriations | - | - | - | 21,632,644 | - | 1,159,176 | 22,791,820 |
| Other financing sources | 817,293 | 524,000 | - | - | - | 2,183,569 | 3,524,862 |
| Other financing (uses) | (14,721,599) | (24,632,190) | (53,252,625) | (22,678,071) | (25,421,713) | (6,537,965) | (147,244,163) |
| Loans forgiven - principal | - | - | - | - | - | - | - |
| Fiscal year | (1,662,690) | - | - | (3,777) | - | (4,522) | (1,670,989) |
| Total other financing sources (uses) | (2,214,396) | (1,251,690) | (53,252,625) | (1,049,204) | (25,421,713) | 4,058 | (83,185,570) |
| Net change in fund balances | (17,879) | (2,027,267) | (11,815,091) | (1,049,204) | - | 154,929 | (14,754,512) |
| Fund balance, beginning of year | 18,449 | 21,941,228 | 65,466,771 | 934,120 | - | 2,024,003 | 90,384,571 |
| Fund balance, end of year | \$ 570 | \$ 19,913,961 | \$ 53,651,680 | \$ (115,084) | \$ - | \$ 2,178,932 | \$ 75,630,059 |

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, 2011**

Net change in fund balances - Total Governmental Funds \$ (14,754,512)
(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:

| | | |
|---|----------|----------|
| Depreciation expense for governmental and program activities | (27,238) | |
| Total excess (deficiency) of capital assets over depreciation | | (27,238) |

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 | 21,503 | |
| | | 21,503 |

| | | |
|----------|--|---|
| Rounding | | 1 |
|----------|--|---|

Change in net assets of Governmental Activities (Statement of Activities) \$ (14,760,246)

**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, 2011**

| | Original Budget | Final Budget | Modified Accrual Basis | Variance Favorable (Unfavorable) |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Federal sources | \$ 7,565,500 | \$ 13,113,429 | \$ 10,203,932 | \$ (2,909,497) |
| Other gift and grants | - | 60,000 | 263,423 | 203,423 |
| Total revenues | 7,565,500 | 13,173,429 | 10,467,355 | (2,706,074) |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Personal services and employee benefits | 3,488,400 | 4,284,988 | 3,268,410 | 1,016,578 |
| Contractual services | 1,726,900 | 4,115,605 | 3,711,865 | 403,740 |
| Other costs | 8,239,800 | 10,411,987 | 1,290,563 | 9,121,424 |
| Total expenditures | 13,455,100 | 18,812,580 | 8,270,838 | 10,541,742 |
| Excess (deficiency) revenues over expenditures | (5,889,600) | (5,639,151) | 2,196,517 | 7,835,668 |
| Other financing sources (uses): | | | | |
| General Fund appropriations | 12,852,600 | 12,852,600 | 13,352,600 | 500,000 |
| Other financing sources | 30,000 | 828,001 | 817,293 | (10,708) |
| Other financing (uses) | (6,993,000) | (8,041,450) | (14,721,599) | (6,680,149) |
| Reversion | - | - | (1,662,690) | (1,662,690) |
| Net change in fund balance | \$ - | \$ - | \$ (17,879) | \$ (17,879) |

**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, 2011**

| | Original Budget | Final Budget | Modified Accrual Basis | Variance Favorable (Unfavorable) |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Federal Sources | \$ 814,500 | \$ 967,374 | \$ 819,694 | \$ (147,680) |
| Other gift and grants | 500,000 | 500,000 | 5,960 | (494,040) |
| Interest on investments | 112,800 | 112,800 | 16,844 | (95,956) |
| Interest on loans | - | - | 30,774 | 30,774 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 1,427,300 | 1,580,174 | 873,272 | (706,902) |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Contractual services | 47,000 | 59,000 | 54,562 | 4,438 |
| Other costs | 11,264,100 | 10,998,332 | 1,594,287 | 9,404,045 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 11,311,100 | 11,057,332 | 1,648,849 | 9,408,483 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Excess (deficiency) revenues over expenditures | (9,883,800) | (9,477,158) | (775,577) | 8,701,581 |
| Other financing sources (uses): | | | | |
| State General Fund appropriations | 22,856,500 | 22,856,500 | 22,856,500 | - |
| Other financing sources | 2,302,700 | 2,302,700 | 524,000 | (1,778,700) |
| Other financing (uses) | (15,275,400) | (15,991,073) | (24,632,190) | (8,641,117) |
| Loans forgiven - Principal | - | - | - | - |
| Transfers - Reversion | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net change in fund balance | \$ - | \$ (309,031) | \$ (2,027,267) | \$ (1,718,236) |

**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, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Interest on investments | \$ - | \$ - | \$ 121,685 | \$ 121,685 |
| Miscellaneous revenue | - | - | 8,559 | 8,559 |
| Total revenues | <u>-</u> | <u>-</u> | <u>130,244</u> | <u>130,244</u> |
| Prior year cash budgeted | <u>7,197,300</u> | <u>11,197,299</u> | | |
| Total budgeted revenues | 7,197,300 | 11,197,299 | | |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | <u>2,393,000</u> | <u>1,585,875</u> | <u>1,475,611</u> | <u>110,264</u> |
| Total expenditures | <u>2,393,000</u> | <u>1,585,875</u> | <u>1,475,611</u> | <u>110,264</u> |
| Excess (deficiency) revenues over expenditures | 4,804,300 | 9,611,424 | (1,345,367) | (10,956,791) |
| Other financing sources | 42,302,700 | 42,302,700 | 41,307,290 | (995,410) |
| Other financing (uses) | <u>(47,107,000)</u> | <u>(51,914,124)</u> | <u>(51,777,014)</u> | <u>137,110</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (11,815,091)</u> | <u>\$ (11,815,091)</u> |

**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, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| 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 | 65,608,627 | 65,608,627 | 21,632,644 | (43,975,983) |
| Other financing sources | - | - | - | - |
| Other financing (uses) | (65,608,627) | (65,608,627) | (22,678,071) | 42,930,556 |
| Reversion | - | - | (3,777) | (3,777) |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,049,204)</u> | <u>\$ (1,049,204)</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
AMERICAN RECOVERY AND REINVESTMENT ACT (FUND 89000)
FOR THE YEAR ENDED JUNE 30, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Federal sources | \$ 10,937,500 | \$ 10,937,500 | \$ 25,521,713 | \$ 14,584,213 |
| Total revenues | <u>10,937,500</u> | <u>10,937,500</u> | <u>25,521,713</u> | <u>14,584,213</u> |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | <u>2,123,000</u> | <u>2,123,000</u> | <u>100,000</u> | <u>2,023,000</u> |
| Total expenditures | <u>2,123,000</u> | <u>2,123,000</u> | <u>100,000</u> | <u>2,023,000</u> |
| Excess (deficiency) revenues over expenditures | 8,814,500 | 8,814,500 | 25,421,713 | 16,607,213 |
| Other financing sources (uses): | | | | |
| Other financing sources | - | 650,000 | - | (650,000) |
| Other financing (uses) | <u>(8,814,500)</u> | <u>(9,464,500)</u> | <u>(25,421,713)</u> | <u>(15,957,213)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011**

| <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 | \$ - | \$ 2,179,222 |
| Long-term Investments (net) | - | 22,373,084 | 22,373,084 |
| Due from other Agencies | - | - | - |
| Total assets | <u>2,179,222</u> | <u>22,373,084</u> | <u>24,552,306</u> |
| <u>Liabilities and Net Assets</u> | | | |
| Interest in SGFIP overdraft | - | 4,074,200 | 4,074,200 |
| Due to other Agencies | - | - | - |
| Total liabilities | <u>-</u> | <u>4,074,200</u> | <u>4,074,200</u> |
| Net Assets: | | | |
| In-trust for scholarships | <u>\$ 2,179,222</u> | <u>\$ 18,298,884</u> | <u>\$ 20,478,106</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2011**

| | 88100 Endowed Merit Scholars Private-Purpose Trust Fund | 23900 College Affordability Endowment Trust Fund | Total Trust Fund |
|---|--|---|-----------------------------|
| Balance, July 1, 2010 | \$ 2,179,222 | \$ 20,638,081 | \$ 22,817,303 |
| <u>Additions</u> | | | |
| Interest from investments | - | 2,047,462 | 2,047,462 |
| Unrealized gain on investments | - | 2,616,417 | 2,616,417 |
| General Fund Appropriation | - | - | - |
| Total additions | - | 4,663,879 | 4,663,879 |
| <u>Deductions</u> | | | |
| Professional investment fees | - | 3,076 | 3,076 |
| Distributions in accordance with trust agreements | - | 7,000,000 | 7,000,000 |
| Operating transfers | - | - | - |
| Total deductions | - | 7,003,076 | 7,003,076 |
| Balance, June 30, 2011 | \$ 2,179,222 | \$ 18,298,884 | \$ 20,478,106 |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011**

2. Summary of Significant Accounting Policies - Continued

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, 2011**

2. Summary of Significant Accounting Policies - Continued

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 and 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
5. American Recovery and Reinvestment Act, SHARE #89000

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, 2011**

2. Summary of Significant Accounting Policies - Continued

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 FUND 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 department 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 91000, 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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

C. Basic Financial Statements – Fund Financial Statements - Continued

10990 ABE Instructional Material Fund

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

Merit Based Scholarships Fund (SHARE Fund 21600, Dept. #0000)
Allied Health Services Student Loan Fund (SHARE Fund 21600, Dept. #3100)
Medical Student Loan Fund (SHARE Fund 21600, Dept. #3200)
Minority Doctoral Assistance Loan Program (SHARE Fund 21600, Dept. #3300)
Nursing Student Loan Fund (SHARE Fund 216, Dept. #3400)
Osteopathic Student Loan Fund (SHARE Fund 21600, Dept. #3500)
Southeastern New Mexico/Teachers/Teachers Quality Loan Fund (SHARE Fund 21600, Dept. #3600)
Health Professional Loan Repayment Program (SHARE Fund 21600, Dept.'s #3700 and #3800)
Graduate Fellowship Fund (SHARE Fund 21600, Dept. #3900)
Endowed Merit Scholars (SHARE Fund 21600, Dept. #4000)
Work Study Program Fund (SHARE Fund 21600, Dept. #4100)
New Mexico Scholars (SHARE Fund 21600, Dept. #4200)
Student Choice Grants Fund (SHARE Fund 21600, Dept. #4400)
State Student Incentive Grants Fund (SHARE Fund 21600, Dept. #4500)
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
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 American Recovery and Reinvestment Act Fund
89200 Capital Projects Fund (FY2011)

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

C. Basic Financial Statements – Fund Financial Statements - Continued

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.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

E. Basis of Accounting - Continued

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.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

F. Budget and Budgetary Accounting - Continued

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.
7. Budgetary overages – The Department exceeded its Final approved budget in two control categories at the appropriations unit level. Approved Budget Adjustment Requests (BARS) for additional funding or reclass of other budgets were not obtained. The two funds that exceeded the approved budget are 1.) General Fund - \$6,680,149, 2.) Financial Aid Fund - \$8,641,117, and 3.) American Recovery and Reinvestment Act Fund - \$15,957,213.
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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

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, 2011.

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, 2011.

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, 2011.

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 (fourteen working days) was accrued pertaining to the year ended June 30, 2011. The pay period ending June 24, 2011 was paid on July 1, 2011, for ten (10) working days from June 11 through 24, 2011. The period ending June 30, 2011 was paid on July 15, 2011 for four (4) working days. Since the disbursements did not occur until after fiscal year end, accrued salaries, payroll taxes and benefit payables totaling \$192,098 were reflected in the financial statements as of June 30, 2011.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

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.

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. Fund Balances

In the governmental fund financial statements the Department classifies fund balances into spendable and non-spendable classifications. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact until expended for its restricted purpose. The Department has non-spendable fund balances of \$570 as of June 30, 2011, for prepaid expenses that are in non-spendable form.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

O. Fund Balances - Continued

The spendable classifications are detailed below:

Restricted Fund Balances

In the governmental fund financial statements restrictions of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Based on the criteria above the Department reports restricted funds totaling \$75,744,573 in special revenue funds as of June 30, 2011.

Committed Fund Balances

In the governmental fund financial statements committed fund balances are reported when amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Both Legislative and Executive branches through formal action). The Department had no committed fund balances as of June 30, 2011.

Assigned Fund Balances

In the governmental fund financial statements assigned fund balances are reported when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Department does not have the authority to assign fund balance for a specific purpose. The Department has no assigned fund balances as of June 30, 2011.

Unassigned Fund Balances

In the governmental fund financial statements unassigned fund balances are reported to reflect residual fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The Department has a negative fund balance of \$115,084 in the Capital Projects Fund (SHARE #64000), which is reported as unassigned fund balance as of June 30, 2011.

Generally, the Department would first apply committed resources when an expense is incurred for purposes for which both committed, assigned, or unassigned fund balances are available.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. Summary of Significant Accounting Policies - Continued

P. Net Assets - Continued

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

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

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 \$75,630,059 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.

Q. 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.

R. Short-Term Debt

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

3. Cash and Investments

Included in cash and cash equivalents is \$54,903,029 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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3. Cash and Investments - Continued

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.

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, 2011. 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, 2011, the Department's cash and cash equivalent deposits were not exposed to custodial credit risk.

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 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, 2011, the State Treasurer reported that the cash accounts were adequately collateralized in accordance with state statutes for deposits held in trust, Section 59A-10-4, NMSA.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3. Cash and Investments - Continued

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

Cash balance as of June 30, 2010

| SHARE Fund No. | Fund Name | State Treasurer Balance | Outstanding Warrants | Reconciled Balance |
|-------------------|---|----------------------------|-------------------------|-----------------------|
| 91000 | General Fund | \$ 2,097,549 | - | \$ 2,097,549 |
| 10990 | ABE Instructional Materials | - | - | - |
| 21600 | Student Financial Aid | 1,492,200 | - | 1,492,200 |
| 21700 | College Affordability Scholarship | 877,168 | - | 877,168 |
| 23900 | College Affordability Sendowment | (4,074,200) | - | (4,074,200) |
| 29200 | College Goal Sunday Grant | 8,470 | - | 8,470 |
| 34400 | Post-Secondary Education Institution Fund | 486,755 | - | 486,755 |
| 47900 | Faculty Endowment Fund | 82,787 | - | 82,787 |
| 54500 | Performance Fund | 2,066 | - | 2,066 |
| 63700 | Lottery Tuition Fund | 47,114,875 | - | 47,114,875 |
| 64400 | Capital Projects | 2,043,484 | - | 2,043,484 |
| 78200 | Performance Development Fund | 2,604 | - | 2,604 |
| 88100 | Legislative Endowment Scholarship | 2,886,871 | - | 2,886,871 |
| 89000 | American Recovery and Reinvestment Act | (12,578) | - | (12,578) |
| 89200 | Capital Projects (FY 2011) | - | - | - |
| | | 53,008,051 | - | 53,008,051 |

Less:

| | | |
|-------|---|----------------|
| 88100 | Legislative Endowment Scholarship Non-expendable Trust Fund included above | \$ (2,179,222) |
| 23900 | College Affordability Scholarship | 4,074,200 |
| | Total expendable cash | \$ 54,903,029 |

Non-expendable Trust Fund:

| | | |
|-------|---|----------------|
| 88100 | Legislative Endowment Scholarship Non-expendable Trust Fund included above | \$ 2,179,222 |
| 23900 | College Affordability Scholarship | (4,074,200) |
| | Total non-expendable cash | \$ (1,894,978) |

Reconciliation to Statement of Net Assets:

| | |
|-----------------------|---------------|
| Cash and Investments | \$ 54,915,607 |
| Less: Overdraft | (12,578) |
| Total expendable cash | \$ 54,903,029 |

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3. Cash and Investments - Continued

The value of the investments maintained at the State Investment Council External Pooled Investment Funds are as follows at June 30, 2011:

| | Market Value |
|---------------------------|---------------|
| Core Bond Fund | \$ 4,336,990 |
| Large Cap Active Fund | 6,433,132 |
| Large Cap Index Fund | 6,029,794 |
| Mid/Small Cap Active Fund | 768,971 |
| Non US Developed | 1,337,189 |
| US Emerging Markets | 3,467,008 |
| Total | \$ 22,373,084 |

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.

4. Agency Subrecipients

Of the federal expenditures presented in the schedule, the State of New Mexico Department of Finance and Administration provided federal awards to state agency subrecipients as follows:

| Program Title | CFDA Number | Federal Amount Provided to Subrecipients |
|---|----------------|--|
| American Recovery and Reinvestment Act - Education State Grants | 84.394 | \$ 25,065,100 |
| American Recovery and Reinvestment Act - Government Services | 84.397 | \$ 356,614 |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

5. Receivables

A. Due from Other State Agencies

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

| SHARE # | Name | Description | Amount | Due From |
|--|-----------------------------------|-----------------------------|----------------------|----------------------------------|
| 21600 | Financial Aid | Financial aid | \$ 500,180 | Office of the NM State Treasurer |
| 21700 | College Affordability Scholarship | Accrual investment interest | 77 | Office of the NM State Treasurer |
| 64400 | Capital Project | Bond proceeds | 3,286,347 | New Mexico Board of Finance |
| 63700 | Lottery Tuition | Lottery proceeds | 6,523,591 | 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 | 7 | Office of the NM State Treasurer |
| 78200 | Development Enhancement | Accrual investment interest | 99 | Office of the NM State Treasurer |
| 88100 | Endowed Merit Scholarships | Accrual investment interest | 256 | Office of the NM State Treasurer |
| 89000 | ARRA | ARRA reimbursement | 1,478,021 | Office of the NM State Treasurer |
| 89200 | Capital Projects (FY 2011) | NMJC Roof | 129,607 | Office of the NM State Treasurer |
| Total Due from Other State Agencies | | | \$ 11,918,186 | |

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, 2011 follows:

| Project | Group | Approp. ID | Approp. End Date | Amount Sold | Amount Draw | Amount AIPP | Balance Held | SHARE # |
|---|---------|------------|------------------|----------------------|------------------------|---------------------|--|-------------------------|
| | | | | | | | by State Board of Finance June 30, 2011 | Capital Project Fund |
| ACADEMIC LIBRARY ACQUISITIONS STATEWIDE | GOB07 | 06-2284 | 6/30/2011 | \$ 3,000,000 | \$ (2,999,736) | \$ - | \$ 264 | 64400 |
| LUNA CMTY COLLEGE EDUCATION BUILDING | GOB07 | 06-2380 | 6/30/2010 | 2,000,000 | (1,980,000) | (20,000) | - | 64400 |
| HED LIBRARY ACQUISITIONS | GOB09 | 08-4932 | 6/30/2012 | 3,000,000 | (1,835,264) | - | 1,164,736 | 64400 |
| CCC ALLIED HEALTH BUILDING | GOB09 | 08-4933 | 6/30/2012 | 4,000,000 | (1,281,611) | (40,000) | 2,678,389 | 64400 |
| SJC HEALTH SCIENCES CENTER | GOB09 | 08-4934 | 6/30/2012 | 5,000,000 | (3,846,674) | (50,000) | 1,103,326 | 64400 |
| UNM DENTAL RESIDENCY ED FCLTIES STATEWIDE | GOB09 | 08-4935 | 6/30/2012 | 7,000,000 | (5,693,936) | (70,000) | 1,236,064 | 64400 |
| CNMCC WESTSIDE CAMPUS | GOB09 | 08-4943 | 6/30/2012 | 12,000,000 | (3,591,560) | (120,000) | 8,288,440 | 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 | (6,860,943) | (70,000) | 69,057 | 64400 |
| LCC MULTIPURPOSE EDUCATION CENTER | GOB09 | 08-4946 | 6/30/2012 | 4,500,000 | (2,545,265) | (45,000) | 1,909,735 | 64400 |
| SFCC TRADES & ADVANCED TECH CTR | GOB09 | 08-4947 | 6/30/2012 | 4,200,000 | (4,158,000) | (42,000) | - | 64400 |
| LIBRARY ACQUISITIONS ACADEMIC STATEWIDE | GOB11 | 10-1229 | 6/30/2014 | 2,000,000 | - | - | 2,000,000 | 64400 |
| NMJC ROOF IMPROVE/REPLACE | STB10SA | | 6/30/2014 | 3,000,000 | (1,159,176) | - | 1,840,824 | 89200 |
| Total | | | | \$ 60,200,000 | \$ (39,417,165) | \$ (492,000) | \$ 20,290,835 | |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

5. Receivables - Continued

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).

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 2011. 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 | \$ - | \$ 619,782 |
| 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 | (747,910) | 1,910,342 |
| 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 | 10,002,008 | 1,121,446 | 11,123,454 | (240,910) | 10,882,544 |
| Dentistry | 223,400 | - | 223,400 | - | 223,400 |
| | <u>\$ 16,213,317</u> | <u>\$ 2,640,188</u> | <u>\$ 18,853,505</u> | <u>\$ (1,272,607)</u> | <u>\$ 17,580,898</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

6. Capital Assets

The capital assets activity for the year ended June 30, 2011, is as follows:

| | Balance 6/30/2010 | Additions FY11 | Deletions FY11 | Balance 6/30/2011 |
|---------------------------------------|------------------------------|---------------------------|---------------------------|------------------------------|
| Capital assets: | | | | |
| Equipment and Machinery | \$ 350,568 | \$ - | \$ - | \$ 350,568 |
| Furniture and Fixtures | 130,091 | - | - | 130,091 |
| Vehicles | 77,180 | - | - | 77,180 |
| Total at historical cost | <u>\$ 557,839</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 557,839</u> |
| Less accumulated depreciation: | | | | |
| Equipment and Machinery | \$ 317,800 | \$ 9,284 | \$ - | \$ 327,084 |
| Furniture and Fixtures | 42,645 | 10,991 | - | 53,636 |
| Vehicles | 24,376 | 6,962 | - | 31,338 |
| Total accumulated depreciation | <u>\$ 384,821</u> | <u>\$ 27,237</u> | <u>\$ -</u> | <u>\$ 412,058</u> |
| Net capital assets: | | | | |
| Equipment and Machinery | \$ 32,768 | \$ (9,284) | \$ - | \$ 23,484 |
| Furniture and Fixtures | 87,446 | (10,991) | - | 76,455 |
| Vehicles | 52,804 | (6,962) | - | 45,842 |
| Total net capital assets | <u>\$ 173,018</u> | <u>\$ (27,237)</u> | <u>\$ -</u> | <u>\$ 145,781</u> |

Depreciation expense was charged to function as follows:

| | |
|--------------------|------------------|
| GEAR-UP program | \$ 10,559 |
| General government | 16,679 |
| Total depreciation | <u>\$ 27,238</u> |

The Department does not have any debt related to capital assets at June 30, 2011. Depreciation expense for the current year was \$27,238 and is included in the "Governmental activities" and "Program activities" functions in the Statement of Activities.

7. 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 \$113,986 in the Statement of Net Assets for annual and sick leave based on current pay rates and hours accumulated at June 30, 2011. The General Fund liquidates compensated absences liabilities.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

7. Compensated Absences Payable - Continued

A summary of changes in the compensated absences payable for the year ended June 30, 2011, is as follows:

| <u>Compensated Absences Payable</u> | <u>Balance 7/1/2010</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance 6/30/2011</u> | <u>Amount Due within One Year</u> |
|-------------------------------------|-----------------------------|-----------------|-----------------|------------------------------|---|
| General Fund | \$ 135,489 | \$ 135,489 | \$ (156,992) | \$ 113,986 | \$ 113,986 |

8. 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, 2011. The following shows the computation of the amount due to the State General Fund at June 30, 2011:

(a) Due to State General Fund

| Share Number | 91000 | 21600 | 89000 | | |
|--|---------------------|----------------------|---|-----------------------|--------------|
| | | | American Recovery and Reinvestment Act | Due from Non-Major | Total |
| | <u>General Fund</u> | <u>Financial Aid</u> | | | |
| Due to State General Fund as of June 30, 2011 | \$ 2,725,894 | \$ - | \$ - | \$ - | \$ 2,725,894 |

(b) Reversion

Reversion from Governmental Funds:

| <u>Fiscal Year:</u> | <u>Reversion Amount</u> |
|---------------------|-----------------------------|
| FY2011 | \$ 1,670,989 |
| FY2010 | 1,054,905 |
| Total reversions | <u>\$ 2,725,894</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

9. Operating Leases

The Department leases certain office space and equipment under lease agreements with terms ranging from one year to five years with options to renew for additional one to five year terms. Expenditures for operating leases and other rentals for the year ended June 30, 2011 were \$343,674. Future minimum payments under these operating leases are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2012 | \$ 331,629 |
| 2013 | 327,348 |
| 2014 | <u>159,512</u> |
| | <u>\$ 818,489</u> |

10. Deferred Compensation Plan – State of New Mexico

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

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

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

11. 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 | | |
| | Various corrections/refunds | \$ 817,293 | \$ - |
| | Various institutions | | 7,026,468 |
| | No Child Left Behind | | 675,323 |
| | Operating - Dental Hygiene Program | | 345,000 |
| | High Skills | | 163,249 |
| | Engaging Latino Communities for Education (ENLACE) | | 1,032,300 |
| | ABE programs | | 4,488,759 |
| | New Mexico Mathematics, Engineering, Science Achievement (MESA) | | 990,500 |
| <u>21600</u> | Financial Aid | | |
| | State Student Incentive - Grants refund | 24,000 | |
| | ETB Scholarship | 500,000 | |
| | Statewide financial aid scholarships and student loans | | 24,632,190 |
| <u>10990</u> | ABE Instructional Materials | | |
| | Funds from Public Education Department | 183,569 | |
| | Awarded for scholarship | | 183,569 |
| <u>21700</u> | College Affordable | | |
| | Transfer in from College Affordability Trust Fund | 2,000,000 | |
| | Awarded for scholarship | | 1,991,420 |
| <u>78200</u> | Development enhancement | | |
| | Supplemental statewide programs for enhancement | | 3,203,800 |
| <u>63700</u> | Lottery Tuition | | |
| | Grant distribution to other colleges and institutions | | 53,252,625 |
| <u>89200</u> | Capital Project (FY2011) | | |
| | NMJC Roof Project | | 1,159,176 |
| <u>64400</u> | Capital Project | | |
| | Used for institutions capital projects draw-down | | 22,678,071 |
| <u>89000</u> | State Fiscal Stabilization Fund | | |
| | Transfer in for ARRA | | |
| | State-wide supplemental Grants to institutions | | 25,421,713 |
| | Total | \$ 3,524,862 | \$ 147,244,163 |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

12. Transfers to/from Other Agencies

| State Agency | Agency Number | Fund Number | Purpose | #91000 General Fund | #21600 Financial Aid | #78200 Development Enhancement | #64400 Capital Projects | #89200 Capital Projects FY2011 | Total |
|---------------------------|---------------|-------------|-------------------------------|------------------------|-------------------------|--------------------------------------|----------------------------|--------------------------------------|----------------------|
| DFA | 34100 | 85300 | Fund Appropriation | \$ 13,352,600 | \$ 22,856,500 | \$ 3,203,800 | \$ - | \$ - | \$ 39,412,900 |
| State Board of Finance | 34100 | 85300 | Bond Proceed Appropriation | - | - | - | 21,632,644 | 1,159,176 | 22,791,820 |
| | | | | <u>\$ 13,352,600</u> | <u>\$ 22,856,500</u> | <u>\$ 3,203,800</u> | <u>\$ 21,632,644</u> | <u>\$ 1,159,176</u> | <u>\$ 62,204,720</u> |

13. PERA Pension Plan

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

Funding Policy – Plan members are required to contribute 7.42 percent of their gross salary. The Department is required to contribute 16.59 percent of the gross covered salary. The contribution requirements of plan members and the Department are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the years ended June 30, 2011, 2010, and 2009 were \$332,922, \$424,681, and \$492,336, respectively, which equal the amount of the required contributions for each year.

14. Post-Employment Benefits – State Retiree Health Plan

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

14. 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, 2011, 2010, 2009, were \$36,301, \$35,902, and \$38,089, respectively, which equal the required contributions for each year.

15. Risk Management and Litigation

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

16. Contingencies

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

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

17. Federal Funds Questioned Costs Uncertainties

The audit of the Agency's single audit for federal funding revealed various instances of noncompliance and control weaknesses 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.

18. 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. Also, the Department's Financial Aid Director served as the Treasurer of the Board of this entity during 2011. The Department incurred \$385,110 for the year-ended June 30, 2011.

19. Subsequent Events

Events subsequent to June 30, 2011 have been evaluated by management through April 27, 2012, the date of the auditor's report. In the opinion of management, no events occurring after June 30, 2011 require adjustment to the financial statements.

20. Prior Period Restatement

GASB Statement No. 54 clarifies the existing governmental fund type's 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 was implemented in the current fiscal year and requires retroactive restatement. All of the Department's fund balances previously classified as "Reserved" totaling \$90,366,122 at the end of June 30, 2010 with the exception of the General Fund (SHARE 91000) were reclassified as "Restricted fund balances" in the governmental funds balance sheet as of beginning of fiscal year 2011. The General Fund beginning fund balance of \$18,449 at the end of June 30, 2010 was reclassified as "Non-spendable fund balance" in the non-major governmental fund balance sheet as of the beginning of fiscal year 2011.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2011**

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2011**

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2011**

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2011**

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2011**

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.

American Recovery and Reinvestment Act (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
NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS
JUNE 30, 2011**

ABE Instructional Materials (SHARE Fund #10990) – The fund consists of a share of royalties from Federal oil and gas leases. The royalties go to the Public Education Department and are partially distributed according to a formula to NM Higher Education Department for distribution to local programs. The funding does not come from the general fund and is expendable in subsequent years. The fund was created by NMSA 22-15-9. The fund is administered according to NMAC 5.3.14.1.

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.

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, 2011**

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.

Capital Projects FY2011 (SHARE Fund #89200) – The purpose of this fund is to provide monies to the Higher Education Department for roof improvements and replacement at the New Mexico Junior College in Hobbs, New Mexico. The fund is program is authorized by The Legislature of the State of New Mexico, 49th Legislature, 2nd Special Session, Laws 2010, Chapter 4, House Bill 5, as amended.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET – NON-MAJOR FUNDS
JUNE 30, 2011**

| | 10990 | 21700 | 29200 | 34400 | 47900 | 54500 | 78200 | 88100 | 89200 | |
|---|---------------|-------------------|-----------------|-------------------|------------------|-----------------|-----------------|-------------------|-------------------|---------------------|
| | ABE | College | College Goal | Post-Secondary | | Higher | Program | Legislative | Capital | Total |
| | Instructional | Affordability | Sunday | Educational | Faculty | Education | Development | Endowment | Projects | Other |
| | Materials | Scholarship | Grant | Institution | Endowment | Performance | Enhancement | Scholarship | FY2011 | Funds |
| <u>Assets</u> | | | | | | | | | | |
| Interest in SGFIP | \$ - | \$ 877,168 | \$ 8,470 | \$ 486,755 | \$ 82,787 | \$ 2,066 | \$ 2,604 | \$ 707,649 | \$ - | \$ 2,167,499 |
| Due from other state agencies | - | 77 | 1 | - | 7 | - | 99 | 256 | 129,607 | 130,047 |
| Accounts Receivable | - | - | - | 21,430 | - | - | - | - | - | 21,430 |
| Due from federal government | - | - | - | - | - | - | - | - | - | - |
| Total current assets | <u>\$ -</u> | <u>\$ 877,245</u> | <u>\$ 8,471</u> | <u>\$ 508,185</u> | <u>\$ 82,794</u> | <u>\$ 2,066</u> | <u>\$ 2,703</u> | <u>\$ 707,905</u> | <u>\$ 129,607</u> | <u>\$ 2,318,976</u> |
| <u>Liabilities and Fund Balances</u> | | | | | | | | | | |
| Liabilities: | | | | | | | | | | |
| Vouchers payables | \$ - | \$ 4,867 | \$ - | \$ 348 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,215 |
| Accrued payroll liabilities | - | - | - | 5,222 | - | - | - | - | - | 5,222 |
| Due to other funds | - | - | - | - | - | - | - | - | - | - |
| Due to other state agencies | - | - | - | - | - | - | - | - | - | - |
| Due to project recipient | - | - | - | - | - | - | - | - | 129,607 | 129,607 |
| Total liabilities | <u>-</u> | <u>4,867</u> | <u>-</u> | <u>5,570</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>129,607</u> | <u>140,044</u> |
| Fund Balance: | | | | | | | | | | |
| Spendable: | | | | | | | | | | |
| Restricted | - | 872,378 | 8,471 | 502,615 | 82,794 | 2,066 | 2,703 | 707,905 | - | 2,178,932 |
| Committed | - | - | - | - | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - | - | - | - |
| Total fund balance | <u>-</u> | <u>872,378</u> | <u>8,471</u> | <u>502,615</u> | <u>82,794</u> | <u>2,066</u> | <u>2,703</u> | <u>707,905</u> | <u>-</u> | <u>2,178,932</u> |
| Total liabilities and fund balance | <u>\$ -</u> | <u>\$ 877,245</u> | <u>\$ 8,471</u> | <u>\$ 508,185</u> | <u>\$ 82,794</u> | <u>\$ 2,066</u> | <u>\$ 2,703</u> | <u>\$ 707,905</u> | <u>\$ 129,607</u> | <u>\$ 2,318,976</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
NON-MAJOR FUNDS
JUNE 30, 2011**

| | 10990 | 21700 | 29200 | 34400 | 47900 | 54500 | 78200 | 88100 | 89200 | |
|--|---------------|---------------|--------------|----------------|------------|-------------|--------------|--------------|-------------|----------------|
| | ABE | College | College Goal | Post-Secondary | | Higher | Program | Legislative | Capital | Total |
| | Instructional | Affordability | Sunday | Educational | Faculty | Education | Development | Endowment | Projects | Other |
| | Materials | Scholarship | Grant | Institution | Endowment | Performance | Enhancement | Scholarship | FY2011 | Funds |
| Revenues: | | | | | | | | | | |
| Federal sources | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses, permits and fees | - | - | - | 212,506 | - | - | - | - | - | 212,506 |
| Interest on investments | - | 2,504 | 16 | - | 151 | 4 | 1,800 | 5,277 | - | 9,752 |
| Miscellaneous revenue | - | 8,968 | - | - | - | - | - | - | - | 8,968 |
| Other Grants | - | - | - | - | - | - | - | - | - | - |
| Total revenues | - | 11,472 | 16 | 212,506 | 151 | 4 | 1,800 | 5,277 | - | 231,226 |
| Expenditures: | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Personal services and employee | | | | | | | | | | |
| benefits | - | - | - | 76,928 | - | - | - | - | - | 76,928 |
| Contractual services | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | 3,427 | - | - | - | - | - | 3,427 |
| Total expenditures | - | - | - | 80,355 | - | - | - | - | - | 80,355 |
| Excess (deficiency) of revenues over expenditures | - | 11,472 | 16 | 132,151 | 151 | 4 | 1,800 | 5,277 | - | 150,871 |
| Other financing sources (uses): | | | | | | | | | | |
| State General Fund appropriations | - | - | - | - | - | - | 3,203,800 | - | - | 3,203,800 |
| Bond proceeds appropriations | - | - | - | - | - | - | - | - | 1,159,176 | 1,159,176 |
| Other financing sources | 183,569 | 2,000,000 | - | - | - | - | - | - | - | 2,183,569 |
| Other financing (uses) | (183,569) | (1,991,420) | - | - | - | - | (3,203,800) | - | (1,159,176) | (6,537,965) |
| Reversion | - | - | - | (4,522) | - | - | - | - | - | (4,522) |
| Total other financing sources (uses) | - | 8,580 | - | (4,522) | - | - | - | - | - | 4,058 |
| Net change in fund balances | - | 20,052 | 16 | 127,629 | 151 | 4 | 1,800 | 5,277 | - | 154,929 |
| Fund balances beginning of year | - | 852,326 | 8,455 | 374,986 | 82,643 | 2,062 | 903 | 702,628 | - | 2,024,003 |
| Fund balance, end of period | \$ - | \$ 872,378 | \$ 8,471 | \$ 502,615 | \$ 82,794 | \$ 2,066 | \$ 2,703 | \$ 707,905 | \$ - | \$ 2,178,932 |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
ABE INSTRUCTIONAL MATERIALS (FUND 10990)
FOR THE YEAR ENDED JUNE 30, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Other revenues | \$ - | \$ - | \$ - | \$ - |
| Total revenues | - | - | - | - |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | - | 81,661 | 81,661 | - |
| Total expenditures | - | 81,661 | 81,661 | - |
| Excess (deficiency) revenues over expenditures | - | (81,661) | (81,661) | - |
| Other financing sources (uses): | | | | |
| Other financing sources | - | 183,569 | 183,569 | - |
| Other financing (uses) | - | (101,908) | (101,908) | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**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, 2011**

| | Original Budget | Final Budget | Modified Accrual Basis | Variance Favorable (Unfavorable) |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Interest on investments | \$ - | \$ - | \$ 2,504 | \$ 2,504 |
| Other revenues | - | - | 8,968 | 8,968 |
| Total revenues | - | - | 11,472 | 11,472 |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | 877,100 | 821,692 | 813,112 | 8,580 |
| Total expenditures | 877,100 | 821,692 | 813,112 | 8,580 |
| Excess (deficiency) revenues over expenditures | (877,100) | (821,692) | (801,640) | 20,052 |
| Other financing sources (uses): | | | | |
| Other financing sources | 2,000,000 | 2,000,000 | 2,000,000 | - |
| Other financing (uses) | (1,122,900) | (1,178,308) | (1,178,308) | - |
| Net change in fund balance | \$ - | \$ - | \$ 20,052 | \$ 20,052 |

**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, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Interest on investments | \$ - | \$ - | \$ 16 | \$ 16 |
| Total revenues | <u>-</u> | <u>-</u> | <u>16</u> | <u>16</u> |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) revenues over expenditures | - | - | 16 | 16 |
| Other financing sources (uses): | | | | |
| Other financing sources | - | - | - | - |
| State General Fund appropriations | - | - | - | - |
| Other financing uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16</u> | <u>\$ 16</u> |

**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, 2011**

| | Original Budget | Final Budget | Modified Accrual Basis | Variance Favorable (Unfavorable) |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Other licenses | \$ 145,000 | \$ 145,000 | \$ 212,506 | \$ 67,506 |
| Total revenues | 145,000 | 145,000 | 212,506 | 67,506 |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Personal services | 140,000 | 140,000 | 76,928 | 63,072 |
| Other costs | 5,000 | 5,000 | 3,427 | 1,573 |
| Total expenditures | 145,000 | 145,000 | 80,355 | 64,645 |
| Excess (deficiency) revenues over expenditures | - | - | 132,151 | 132,151 |
| Other financing sources (uses): | | | | |
| Other financing sources | - | - | - | - |
| Reversion | - | - | (4,522) | (4,522) |
| Net change in fund balance | \$ - | \$ - | \$ 127,629 | \$ 127,629 |

**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, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Interest on investments | \$ - | \$ - | \$ 151 | \$ 151 |
| Total revenues | <u>-</u> | <u>-</u> | <u>151</u> | <u>151</u> |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) revenues over expenditures | - | - | 151 | 151 |
| Other financing sources (uses): | | | | |
| Other financing sources | - | - | - | - |
| Other financing uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 151</u></u> | <u><u>\$ 151</u></u> |

**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, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Interest on investments | \$ - | \$ - | \$ 4 | \$ 4 |
| Total revenues | <u>-</u> | <u>-</u> | <u>4</u> | <u>4</u> |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) revenues over expenditures | - | - | 4 | 4 |
| Other financing sources (uses): | | | | |
| Prior year fund balance | - | - | - | - |
| Other financing (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4</u> | <u>\$ 4</u> |

**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, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Interest on investments | \$ - | \$ - | \$ 1,800 | \$ 1,800 |
| Total revenues | - | - | 1,800 | 1,800 |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | - | 942,300 | 942,300 | - |
| Total expenditures | - | 942,300 | 942,300 | - |
| Excess (deficiency) revenues over expenditures | - | (942,300) | (940,500) | 1,800 |
| Other financing sources (uses): | | | | |
| State General Fund appropriations | 3,203,800 | 3,203,800 | 3,203,800 | - |
| Other financing uses | (3,203,800) | (2,261,500) | (2,261,500) | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,800</u> | <u>\$ 1,800</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
LEGISLATIVE ENDOWMENT SCHOLARSHIP FUND (FUND 88100)
FOR THE YEAR ENDED JUNE 30, 2011**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Modified Accrual Basis</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|---------------------------------------|---|
| Revenues: | | | | |
| Interest on investments | \$ - | \$ - | \$ 5,277 | \$ 5,277 |
| Total revenues | <u>-</u> | <u>-</u> | <u>5,277</u> | <u>5,277</u> |
| Expenditures: | | | | |
| General government: | | | | |
| Current: | | | | |
| Other costs | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) revenues over expenditures | - | - | 5,277 | 5,277 |
| Other financing sources (uses): | | | | |
| Other financing sources | - | - | - | - |
| Other financing uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,277</u> | <u>\$ 5,277</u> |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
NON-MAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FY2011 (FUND 89200)
FOR THE YEAR ENDED JUNE 30, 2011**

| | 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 | 3,000,000 | 3,000,000 | 1,159,176 | (1,840,824) |
| Other financing (uses) | (3,000,000) | (3,000,000) | (1,159,176) | 1,840,824 |
| Net change in fund balance | \$ - | \$ - | \$ - | \$ - |

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

| 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 | V002A100031 | 84.002A | \$ 3,830,788 |
| Leveraging Education Assistant Partnership (LEAP)/ Special Leveraging Education Assistant Partnership (SLEAP) | N069A100032/N069B100028 | 84.069A/B | 391,374 |
| Robert C. Byrd Honors Scholarship | P185A100033 | 84.185A | 213,000 |
| Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP) | P334S06009 S367B100028 | 84.334A | 4,413,939 |
| No Child Left Behind | | 84.367B | 675,323 |
| College Access Challenge Grant | P378A100052 | 84.378A | 1,108,003 |
| State Fiscal Stabilization ARRA | S394A090032 | 84.394A/84.397 | 25,421,714 |
| Veterans State Approving | V101 (223C) P-5040 | 84.xxx | 175,878 |
| Total U.S. Department of Education | | | <u>36,230,019</u> |
| U.S. Department of Health and Human Services: | | | |
| Direct Programs: | | | |
| State Loan Repayment Program | H56HP00099-22-01 | 93.165 | 190,420 |
| ARRA State Loan Repayment Program | H5BHP16808 | 93.402 | 100,000 |
| Total U.S. Department of Health and Human Services | | | <u>290,420</u> |
| U.S. Department of Justice: | | | |
| Direct Programs: | | | |
| John R. Justice Loan Repayment Program | 2010-RJ-BX-0039 | 16.816 | 24,900 |
| Total U.S. Department of Veteran Affairs | | | <u>24,900</u> |
| Total Expenditure of Federal Awards | | | <u>\$ 36,545,339</u> |
| Federal Grant Revenue per Financial Statements | | | <u>\$ 36,545,339</u> |

Note 1 – The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Note 2 – Of the federal expenditures presented in the schedule, the State of New Mexico Department of Higher Education provided federal awards to institutions of higher education as follows:

| Program Title | CFDA Number | Federal Amount Provided to Subrecipients |
|---|----------------|--|
| American Recovery and Reinvestment Act - Education State Grants | 84.394 | \$ 25,065,100 |
| American Recovery and Reinvestment Act - Government Services | 84.397 | 356,614 |
| Total provided to subrecipients | | <u>\$ 25,421,714</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, 2011, which collectively comprise the Department's basic financial statements and have issued our report thereon dated April 27, 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, 2011. 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, 2010-01, 2010-03, 2010-04, 2010-05, and 2010-09.

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 2010-07, 2010-10, 2010-11, 2010-13, 2010-14, 2010-15, 2010-17, 2010-18, 2010-19 and 2010-21.

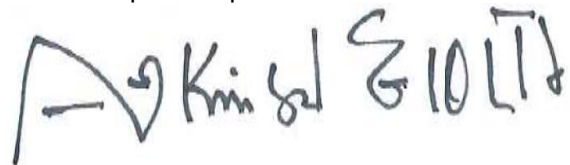
Compliance and Other Matters

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 2010-06, 2010-09, 2010-10, 2010-13, 2010-16, 2010-17, 2010-18, 2010-20, 2010-21 and 2011-01.

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 2010-06, 2010-09, 2010-10, 2010-12, 2010-21, and 2011-01.

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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 27, 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, 2011. 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 2010-12, 2010-13, 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 cash management, periods of availability, allowable costs, procurement, suspension and debarment, federal grant reporting, level of effort, subrecipient monitoring, 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, 2011.

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.

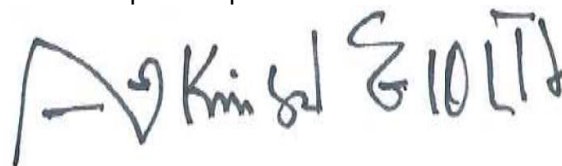
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance 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, 2010-03, 2010-04, 2010-05, and 2010-09 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 2010-07, 2010-10, 2010-11, 2010-12, 2010-13, 2010-15, 2010-17, 2010-18, 2010-19, and 2010-21 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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 27, 2012

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

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:

| | |
|---|----------------|
| State Fiscal Stabilization (ARRA) – cluster | 84.394A/84.397 |
| Gear Up | 84.334 |
| ARRA State Loan Repayment Program | 93.402 |

Dollar threshold used to distinguish between Type A and Type B programs \$1,096,360

Auditee qualified as a low –risk auditee? No

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

II – FINANCIAL STATEMENT FINDINGS

| | |
|---------|---|
| 2006-01 | Reconciliation and Tracking of Loan-for-Service Programs (Material Weakness) |
| 2010-01 | Entity-Level Controls over Financial Reporting (Material Weakness) |
| 2010-03 | Controls Related to Cash Receipts Transaction Cycle (Material Weakness) |
| 2010-04 | Controls Related to Cash Disbursement Transaction Cycle (Material Weakness) |
| 2010-05 | Capital Projects Accounting and Reporting (Material Weakness) |
| 2010-07 | Due Date of Audit Report (Significant Deficiency) |
| 2010-10 | Violation of the Governmental Conduct Act (Significant Deficiency) (Compliance/Other Matter) |
| 2010-11 | Data Collection Form-Late Filing (Significant Deficiency) (All Programs) |
| 2010-12 | Schedule of Expenditures of Federal Awards Preparation (Significant Deficiency) (Compliance/Other Matter) (All Programs) |
| 2010-13 | Cash Management Controls and Compliance (Significant Deficiency) (Compliance/Other Matter) |
| 2010-15 | Allowable Costs (Significant Deficiency) |
| 2010-16 | Procurement, Suspension and Debarment (Compliance/Other Matter) |
| 2010-17 | Federal Grant Reporting (Significant Deficiency) (Compliance/Other Matter) |
| 2010-18 | Federal Grant Monitoring (Significant Deficiency) (Compliance/Other Matter) |
| 2010-19 | Federal Grant Level of Effort (Significant Deficiency) |
| 2010-20 | Eligibility (Compliance/Other Matter) |
| 2010-21 | Untimely Reversion (Significant Deficiency) (Compliance/Other Matter) |

Findings in Accordance with NMAC 2.2.2

| | |
|---------|--|
| 2010-06 | Compliance with Travel and Per Diem Act (Compliance/Other Matter) |
| 2010-09 | Budgetary Compliance (Material Weakness) (Compliance/Other Matter) |
| 2010-10 | Violation of the Governmental Conduct Act (Significant Deficiency) (Compliance/Other Matter) |
| 2010-21 | Untimely Reversion (Significant Deficiency) (Compliance/Other Matter) |
| 2011-01 | Compliance with Procurement Code of New Mexico (Compliance/Other Matter) |

III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|---------|---|
| 2006-01 | Reconciliation and Tracking of Loan-for-Service Programs (Material Weakness) |
| 2010-01 | Entity-Level Controls over Financial Reporting (Material Weakness) |
| 2010-03 | Controls Related to Cash Receipts Transaction Cycle (Material Weakness) |
| 2010-04 | Controls Related to Cash Disbursement Transaction Cycle (Material Weakness) |
| 2010-05 | Capital Projects Accounting and Reporting (Material Weakness) |
| 2010-07 | Due Date of Audit Report (Significant Deficiency) |
| 2010-11 | Data Collection Form-Late Filing (Significant Deficiency) (All Programs) |
| 2010-12 | Schedule of Expenditures of Federal Awards Preparation (Significant Deficiency) (Compliance/Other Matter) (All Programs) |
| 2010-13 | Cash Management Controls and Compliance (Significant Deficiency) (Compliance/Other Matter) |
| 2010-15 | Allowable Costs (Significant Deficiency) |
| 2010-16 | Procurement, Suspension and Debarment (Compliance/Other Matter) |
| 2010-17 | Federal Grant Reporting (Significant Deficiency) (Compliance/Other Matter) |
| 2010-18 | Federal Grant Monitoring (Significant Deficiency) (Compliance/Other Matter) |
| 2010-19 | Federal Grant Level of Effort (Significant Deficiency) |
| 2010-20 | Eligibility (Compliance/Other Matter) |

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

IV - STATUS OF PRIOR AUDIT FINDINGS

2006-01 Reconciliation and Trading of Loan-for-Service Programs -- MODIFIED and REPEATED

2010-01 Entity-Level Controls over Financial Reporting -- MODIFIED and REPEATED

2010-02 Compliance with Timely Deposit Requirement -- RESOLVED

2010-03 Controls Related to Cash Receipts Transaction Cycle -- MODIFIED and REPEATED

2010-04 Controls Related to Cash Disbursement Transaction Cycle -- MODIFIED and REPEATED

2010-05 Capital Projects Accounting and Reporting -- MODIFIED and REPEATED

2010-06 Compliance with Travel and Per Diem Act -- MODIFIED and REPEATED

2010-07 Due Date of Audit Report -- MODIFIED and REPEATED

2010-08 Prior Period Restatements -- RESOLVED

2010-09 Budgetary Compliance -- MODIFIED and REPEATED

2010-10 Violation of the Governmental Conduct Act -- MODIFIED and REPEATED

2010-11 Data Collection Form-Late filing -- MODIFIED and REPEATED

2010-12 Schedule of Expenditures of Federal Awards Preparation -- MODIFIED and REPEATED

2010-13 Cash Management Controls and Compliance -- MODIFIED and REPEATED

2010-14 Period of Availability -- RESOLVED

2010-15 Allowable Costs -- MODIFIED and REPEATED

2010-16 Procurement, Suspension and Debarment -- MODIFIED and REPEATED

2010-17 Federal Grant Reporting -- MODIFIED and REPEATED

2010-18 Federal Grant Monitoring -- MODIFIED and REPEATED

2010-19 Federal Grant Level of Effort -- MODIFIED and REPEATED

2010-20 Eligibility -- MODIFIED and REPEATED

2010-21 Untimely Reversion -- MODIFIED and REPEATED

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

II. CURRENT-YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS

**2006-1 Reconciliation and Tracking of Loan-for-Service Programs (Modified and Repeated)
(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, in FY10 billing ceased and interest was not accrued on many active loans in repayment, and billing and interest accrual had 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. This condition continued through FY11.

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. U.S. generally accepted accounting principles (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. It is not possible to audit the loans and associated activity.

Cause

Department 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 continue to 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.

Department Response

1. The Higher Education Department (HED) engaged New Mexico Educational Assistance Foundation (NMEAF) to assist the Financial Aid Department with several tasks as follows:

- NMEAF has reviewed approximately 1,600 individual loan files for proper documentation.
- NMEAF will calculate the current loan balance for each borrower after completing the loan file review.
- NMEAF will compile detailed information from the file review into a spreadsheet that will be used by the program staff as a source document for updating Educational Computer Services, Inc. (ECSI) database and SHARE. This compiled information will include identification of all payees outside the statute of limitations. Those outside the statute of limitations will be written off.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

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

- The program staff will manually update the ECSI database with current loan balances and loan status information using the spreadsheet prepared by NMEAF.
 - The ECSI database will then serve as the subledger to the HED General Ledger and will be reconciled on a quarterly basis.
2. The Cabinet Secretary has appointed new personnel to oversee the Financial Aid Department, as the previous Director is no longer with HED. The Cabinet Secretary appointed the Financial Aid Coordinator as the Interim Director of Financial Aid. The Financial Aid Coordinator has held this position for over seven years.
 3. The Interim Director of Financial Aid will coordinate with the vendor on the expansion of the ECSI database. This expansion will include additional data files and functionality as needed to properly track the current loan status of borrowers.

**2010-01 Entity-Level Controls over Financial Reporting (Modified and Repeated)
(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 FY11. Financial accounting and reporting functions remained decentralized in FY11, leading to continued inconsistencies and lack of coordination between business processes. There was a lack of a central repository for source documents. There was a lack of accurate financial reporting.

Criteria

A strong internal control structure is required by the NM Department of Finance and Administration (DFA) Manual of 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. The Department is significantly understaffed, and in many cases, does not have the personnel in place to complete all required business processes. The Department is a complex entity, and the lack of adequate staffing does not allow for a solid integrated control environment, centralization of business processes, or effective monitoring of the activities and risks within.

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

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. Policies over records retention were not in place. The decentralized nature of source documents prevented the Department from accurate financial reporting and recordkeeping.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-01 Entity-Level Controls over Financial Reporting (Modified and Repeated)
(Material Weakness) - Continued**

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. In addition, we recommend that vacant positions are filled with qualified and competent staff for effective achievement of internal controls and business activities.

Department Response

1. NMHED has implemented a new organizational chart, job descriptions, and has rolled out an evaluation process to meet financial reporting objectives as required by State Law.
2. Personnel have been evaluated for qualifications and determination as to whether they are a good fit for their respective positions.
3. Employee responsibilities and expectations have been clearly communicated.
4. A new Administrative Services Director/Chief Financial Officer (ASD/CFO) was hired in January 2012. The ASD/CFO is a registered CPA.
5. The ASD/CFO is evaluating and implementing policies and procedures to address the material weaknesses.
6. All vacant financial related positions have been approved by State Personnel Office (SPO) and Department of Finance and Administration (DFA). All of these position descriptions were revised prior to submission to SPO and DFA to better reflect responsibilities.
7. The ASD/CFO is working on deadlines and the creation of monthly reporting packages. The ASD/CFO is also working with individual managers to complete their respective areas in the reporting packages.

**2010-03 Controls Related to Cash Receipts Transaction Cycle (Modified and Repeated)
(Material Weakness)**

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.
- For 4 of 10 disbursements made subsequent to year end, no accrual was posted to record the receipts in the proper period, for a total FY11 amount of \$6,539,810.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-03 Controls Related to Cash Receipts Transaction Cycle (Modified and Repeated)
(Material Weakness) - Continued**

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 turnover rate at the Department. 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 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. In addition, we recommend that employees be familiar with amounts anticipated to be received so that balances are reported in proper accounting period.

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

1. Segregation of duties has been established. Procedures for this process have been communicated and staff has been directed to follow policies and procedures, which the Department will continue to monitor.
2. All vacant financial related positions have been approved by State Personnel Office (SPO) and Department of Finance and Administration (DFA). All of these position descriptions were revised prior to submission to SPO and DFA to better reflect responsibilities.
3. The Department will implement a process for monitoring all transaction activity subsequent to 6/30 of each year to ensure that cutoff procedures are performed and recorded.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-04 Controls Related to Cash Disbursement Transaction Cycle (Modified and Repeated)
(Material Weakness)**

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 9 of 24 disbursements made subsequent to year end, no accrual was made to record items that should have been recorded in the proper period of FY11, for a total under accrued amount of \$4,316,796.

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 turnover rate of employees at the Department during the fiscal year. 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, and proper recognition of amounts in the proper accounting period. 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

1. Segregation of duties has been established. HED has initiated a process that allows the ASD/CFO and two back-ups in absence of the ASD/CFO, to approve journal entries in the general ledger. The ASD/CFO or back-up reviews all support for proper approval, support, etc. before approving.
2. The Department will implement a process for monitoring all transaction activity subsequent to 6/30 of each year to ensure that cutoff procedures are performed and recorded.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

2010-05 Capital Projects Accounting and Reporting (Modified and Repeated) (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 \$3,909,676 (5 projects) and a net overstatement of revenues in the amount of \$19,070 (1 project).
- At least 9 open projects with prior year balances totaling \$1,045,427 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 12 of 34 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.

Criteria

The project funds expended in the FY11 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 able to be properly tracked, reported and reverted by the Department.

Cause

There was a high turnover rate of employees at the Department during the fiscal year. Duties were not being performed consistently and new employees did not receive appropriate training.

Recommendation

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

Department Response

1. NMHED has implemented a new organizational chart, job descriptions, and has rolled out an evaluation process to meet financial reporting objectives as required by State Law.
2. Personnel have been evaluated for qualifications and determination as to whether they are a good fit for their respective positions.
3. A system will be created to properly account for all capital projects by the ASD/CFO and Interim Institutional Finance Director (IFD).

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-05 Capital Projects Accounting and Reporting (Modified and Repeated) (Material Weakness)
- Continued**

4. The ASD/CFO is working on deadlines and the creation of monthly reporting packages. The ASD/CFO is also working with individual managers to complete their respective areas in the reporting packages.
5. There will be an evaluation of segregation of duties by the ASD/CFO and IFD. Changes will be made accordingly.
6. A reconciliation process will be created to ensure sub-ledger or other support agrees to the general ledger on a monthly basis.

**2010-06 Compliance with Travel and Per Diem Act (Modified and Repeated)
(Compliance/Other Matter)**

Condition

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

- In one out of six disbursements tested, the travel and per diem reimbursements/advances were not properly approved. When approvals are given via email, no documentation (electronic or paper) was retained as proof of approval.
- In three out of six disbursements tested, there was not enough supporting documentation attached to reimbursement requests to determine if an event was actually attended.

Criteria

NMAC 2.42.2.9 B(3) states, " The public officer or employee must submit receipts for the actual meal and lodging expenses incurred. Under circumstances where the loss of receipts would create a hardship, an affidavit from the officer or employee attesting to the expenses may be substituted for actual receipts. The affidavit must accompany the travel voucher and include the signature of the agency head or governing board."

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, such documentation is not attached to disbursement packet.

Recommendation

We recommend that the individual creating the purchase document in SHARE check for compliance with NMAC 2.42.2.9 B(3) 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

1. Segregation of duties has been established. Procedures for this process have been communicated and staff has been directed to follow policies and procedures.
2. HED has initiated a process that allows the ASD/CFO and two back-ups in absence of the ASD/CFO, to approve journal entries in the general ledger. The ASD/CFO 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, 2011**

2010-07 Due Date of Audit Report (Modified and Repeated) (Significant Deficiency)

Condition

The June 30, 2011 audit report was not filed with the State Auditor by the statutory deadline. The report was not submitted until April 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, 2011 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, 2011. The users of the financial statements such as legislators, creditors, 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 budget.

Cause

Reconciliations and related adjustments related to significant assets and liabilities were not performed until after the statutory deadline had passed. Turnover in key financial and leadership positions hindered timely and accurate financial reporting.

Recommendation

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

Department Response

1. NMHED has implemented a new organizational chart, job descriptions, and has rolled out an evaluation process to meet financial reporting objectives as required by State Law.
2. A new ASD/CFO was hired in January.
3. The ASD/CFO is working on deadlines and the creation of monthly reporting packages. The ASD/CFO is also working with individual managers to complete their respective areas in the reporting packages. The creation and review of the monthly financial statements will assist in speeding up the process of closing and making adjustments at year end so as to deter the delivery of the Audit Report past the deadline.
4. The HED Management Information System (MIS) and Senior Leadership Team will identify all upcoming deadlines. The Senior Leadership Team will monitor all deadlines and deliverables using MIS every two weeks to ensure all deadlines are met and deliverables are provided.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-09 Budgetary Compliance (Modified and Repeated) (Material Weakness)
(Compliance/Other Matter)**

Condition

The Department actual expenditures exceeded the budgeted expenditures in the following funds:

- General Fund (SHARE Fund 91000)
 - Other Financing Uses - \$6,680,149
- Financial Aid Fund (SHARE Fund 21600)
 - Other Financing Uses - \$8,641,117
- American Recovery and Reinvestment Act (SHARE Fund 890600)
 - Other financing uses - \$15,957,213

In addition, there is a negative fund balance in Fund 64400, Capital Projects Fund.

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

All state agencies are subject to the provisions of NMSA 1978, Chapter 6 Public Finances, Article 3 State Budgets. Violations of the provisions can carry various levels of penalty, such as fines and imprisonment depending on the purpose, nature, and amount of amounts expended for any payment made in violation thereof. A negative fund balance indicates funds were spent in excess of what was appropriated, in this case general fund capital projects.

Cause

The budgetary controls applicable to the expenditure cycle were not implemented at the Department. Tracking of capital projects was not implemented, leading to cost overruns.

Recommendation

For all funds that receive appropriations, we recommend that expenditures are constantly monitored for compliance with the Department's legally enacted budget throughout the year. We also recommend that account coding become consistent with the budget. Finally, we recommend a comprehensive review of expenditures at year-end so timely budget adjustments may be requested accordingly.

Department Response

1. A new ASD/CFO was hired in January.
2. Prior to the 2013 budget, the appropriations were allocated by the ASD/CFO without consulting the Management Team. As a result, differences in budget and actuals existed because the appropriations were not allocated correctly to the different funds.
3. Going forward the appropriations will be allocated by the Management Team. The Management Team will be responsible for creating monthly budget to actual variances.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-10 Violation of the Governmental Conduct Act (Modified and Repeated)
(Significant Deficiency) (Compliance/Other Matter)**

Condition

The Department entered into a professional services contract with a company in which the spouse of a key employee had a substantial interest, and failed to disclose through public notice the employee's substantial interest. The Department incurred costs of \$47,500 and \$385,110 during the years ended June 30, 2010 and 2011, respectively. There was another key employee, the Financial Aid Director, who was Treasurer of the Board of this same entity during FY11.

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 doing business with family members. 10-16-3 NMSA 1978 states:

- A. A legislator or public officer or employee shall treat the legislator's or public officer's or employee's government position as a public trust. The legislator or public officer or employee shall use the powers and resources of public office only to advance the public interest and not to obtain personal benefits or pursue private interests.
- B. Legislators and public officers and employees shall conduct themselves in a manner that justifies the confidence placed in them by the people, at all times maintaining the integrity and discharging ethically the high responsibilities of public service.
- C. Full disclosure of real or potential conflicts of interest shall be a guiding principle for determining appropriate conduct. At all times, reasonable efforts shall be made to avoid undue influence and abuse of office in public service.

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 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

1. HED is conducting a comprehensive review of the contract approval process to prevent non-compliance with state law and Federal compliance.
2. All employees involved in this finding are no longer employed or contracted with HED.
3. All HED employees have signed a Professional Code of Conduct, issued by the Governor of New Mexico.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-21 Untimely Reversions (Modified and Repeated) (Significant Deficiency)
(Compliance/Other Matter)**

Condition

The Department did not revert appropriations in excess of expenditures timely for the several funds in accordance with state statute. At June 30, 2011, the Department's liabilities included \$2,725,894 of late reversions due to the State General Fund. These funds were not reverted as of the date of the auditors' report.

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 information could have affected budgeting for FY13.

Cause

The Department 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

1. The ASD/CFO is working on deadlines and the creation of monthly reporting packages. The ASD/CFO is also working with individual managers to complete their respective areas in the reporting packages. These reporting packages and analyses on a monthly basis will prevent errors and subsequent findings in the financial statements. As part of these reporting packages, the ASD/CFO and team will analyze all accounts for reasonableness, accuracy and completeness prior to closing the books. This will allow the department to complete the reversions timely.
2. The HED Management Information System (MIS) and Senior Leadership Team will identify all upcoming deadlines. The Senior Leadership Team will monitor all deadlines and deliverables using MIS every two weeks to ensure all deadlines are met and deliverables are provided.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

2011-01 Compliance with Procurement Code of New Mexico (Compliance/Other Matter)

Condition

While performing tests of controls and compliance over the Procurement Code of New Mexico, the following deficiency was noted:

- In one out of five procurements tested, the file did not contain documentation of the required open procurement policy. The purchased item had a cost of more than \$10,000, and documentation was not maintained to show advertisement, collection of bids, and evaluation of contract selection.

Criteria

Procurement Code of New Mexico (13-1-28 NMSA 1978)

Effect

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

Cause

The Department has not maintained full documentation of all procurements with competitive sealed bid requirements.

Recommendation

We recommend that the individual creating the competitive sealed bid check for compliance with the Procurement Code of New Mexico (13-1-28 NMSA 1978) before processing. Such individual must ensure that there is proper authorization documented by the requesting individual's supervisor or Division Director, and maintenance of all required documentation (invitation for bid, bids received, and evaluation of bids prior to contract award).

Department Response

NMHED Cabinet Secretary issued a Memorandum to the HED in April 2012. This Memorandum stressed the importance of adhering to the provisions in the Procurement Code. In addition, the ASD/CFO distributed the Procurement Code to all HED employees. The memorandum included the ramifications of not following the code (i.e., misdemeanor subject to civil penalty with fines).

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

III. FINDINGS IN ACCORDANCE WITH OMB CIRCULAR A-133

2010-11 Data Collection Form-Late Filing (Significant Deficiency) (All Programs)

Condition

The Department did not file form SF-SAC (Data Collection Form), by the prescribed deadline of March 31, 2012. It is expected to be submitted in May 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, 2012) or within 30 days after the audit is issued, whichever is earlier.

Effect

The Department's lack of compliance may affect Federal and state funding in the future.

Cause

The audited financial statements for the Department were not submitted to the Office of the State Auditor until April, 2012, which was past the statutory deadline. A completed audit is required to be filed with the SF-SAC.

Questioned Costs

None.

Recommendation

We recommend that the Department prepare timely reconciliations of all funds and accounts in order to obtain a timely audit.

Department Response

The ASD/CFO will work with Department Managers 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 later than the deadline.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-12 Schedule of Expenditures of Federal Awards Preparation (Modified and Repeated)
(Significant Deficiency) (Compliance/Other Matters) (All Programs)**

Condition

The Department understated expenditures on the Schedule of Expenditures of Federal Awards (SEFA) in the amount of \$213,574.

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 had to be adjusted for two programs.

Cause

The Department did not reconcile the SEFA to amounts reported in the SHARE system.

Questioned Costs

None.

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 only after reconciling the reported amounts to the general ledger (SHARE) and applicable source documents (drawdowns).

Department Response

NMHED has centralized the monitoring and reporting process for Federal funds. The Federal Grants Analyst (FGA) has been assigned to monitor the Federal grants and compliance requirements. The SEFA will be prepared by the FGA and will be reviewed and implemented by the ASD/CFO timely.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-13 Cash Management Controls and Compliance (Modified and Repeated)
(Significant Deficiency) (Compliance/Other Matter)**

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) 84.334A
Period 7/1/2010 – 6/30/2011**

**Funding Agency: U.S. Department of Health and Human Services
Title: Health Professional Loan Repayment Program (SLRP) CFDA Number: 93.402
Period 7/1/2010 – 6/30/2011**

**Funding Agency: U.S. Department of Education
Title: ARRA State Fiscal Stabilization Act (SFSF) CFDA Number: 84.394A and 84.397
Period 7/1/2010 – 6/30/2011**

Condition

The Department does not approve draw downs consistently. Of the 8 draw downs tested for the Department, 2 did not have the proper approvals prior to requesting the reimbursement (1 SLRP, 1 GEAR UP).

The Department does not have a strong control environment for maintaining all supporting documentation. Supporting documentation and approvals for 2 draw downs could not be located for audit testwork (2 SFSF).

Criteria

In accordance with the requirements of Section 443(a) of GEPA (20 U.S.C. §1232f (a)), each recipient of SFSF funds must maintain records that fully disclose how those funds were used, the total cost of the activity for which the funds were used, the share of that cost provided by other sources, and such other records as will facilitate an effective audit. OMB Circular A-133 and state Model Accounting Practices require effective internal controls over all transactions, including approvals by the proper level of management prior to executing the transaction.

Effect

We were not able to determine whether the Department drew down the correct amount of funds, for those particular draws, for the SFSF Program. Employees were not obtaining authorization for transactions that require management approval.

Cause

Funds were requested by someone without knowledge of Federal or state regulations regarding internal controls. There was a large degree of turnover within the Department, and approvals and maintained documentation were inconsistent during the year ended June 30, 2011.

Questioned Costs

None.

Recommendation

We recommend the Department cease the practice of drawing down funds without adequate support showing immediate cash needs and/or obligated funds. Authority for authorizations and approvals should be established and followed.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-13 Cash Management Controls and Compliance (Modified and Repeated)
(Significant Deficiency) (Compliance/Other Matter) - Continued**

Department Response

1. The Department is on a reimbursement basis and only draws Federal money after it has been spent.
2. The ASD/CFO reviews all drawdowns to assure no Federal funds are drawn without the supporting expenditure.
3. Current administration understands the Federal regulations regarding cash management. In addition, proper approvals are obtained prior to draw submissions.

2010-15 Allowable Costs (Modified and Repeated) (Significant Deficiency)

Funding Agency: U.S. Department of Education

Title: ARRA State Fiscal Stabilization Act (SFSF) CFDA Number: 84.394A and 84.397

Period 7/1/2010 – 6/30/2011

Condition

During our testing of disbursements to sub-recipient institutions that were charged to the SFSF program, we noted that 14 of 50 items tested that did not contain documentation to determine whether the recipient institution of higher education (IHE) expended the SFSF funds for allowable costs.

Criteria

The OMB A-133 Compliance Supplement, March 2011, states, "SFSF funds must be spent consistent with applicable State and local requirements and the statutory provisions of ARRA."

Effect

Funds may have been expended for unallowable costs.

Cause

The Department reviewed the supporting documentation provided by IHEs but did not maintain those records for audit purposes.

Questioned Costs

Unknown.

Recommendation

We recommend the Department develop procedures to accurately monitor expenditures by sub-recipients of Federal grant funds.

Department Response

HED will create policies and procedures to monitor expenditures by sub-recipients of Federal grant funds. The ASD/CFO is in the process of centralizing the accounts payable documents; therefore, allowing ASD/CFO to monitor and address any violations of the policies and procedures (i.e., exclusion of required support).

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-16 Procurement, Suspension and Debarment (Modified and Repeated)
(Compliance/Other Matter)**

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) 84.334A
Period 7/1/2010 – 6/30/2011**

Condition

We noted 3 of 3 professional services contracts charged to the GEAR UP program in FY11, in which there was no documentation maintained to show that the Department performed verification check on the excluded party list system to ensure vendors were not suspended or debarred.

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 sub-awards 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 the Department reviewed the excluded parties listing prior to contracting with these vendors.

Questioned Costs

None.

Recommendation

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

Department Response

HED will document the assessment of excluded parties with each contract file to show compliance.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-17 Federal Grant Reporting (Modified and Repeated) (Significant Deficiency)
(Compliance/Other Matter)**

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) 84.334A
Period 7/1/2010 – 6/30/2011**

**Funding Agency: U.S. Department of Health and Human Services
Title: Health Professional Loan Repayment Program (SLRP) CFDA Number: 93.402
Period 7/1/2010 – 6/30/2011**

**Funding Agency: U.S. Department of Education
Title: ARRA State Fiscal Stabilization Act (SFSF) CFDA Number: 84.394A and 84.397
Period 7/1/2010 – 6/30/2011**

Condition

During our testing of reporting requirements for the GEAR UP Program, we were unable to obtain evidence to determine whether 1 of the 3 required reports was reviewed and approved before submission to the Department of Education or whether they were submitted before the required deadline.

During our testing of reporting requirements with respect to the SLRP Program, we identified 2 of 3 reports that were not properly reviewed or authorized, and 1 of 3 instances in which the required report was not completed or submitted.

During our testing of reporting requirements with respect to the SFSF Program, we noted that no controls were in place over the reporting requirements for the program, and therefore, could not be assessed. The Department was unable to provide documentation of their portion of reporting requirements, as ordered by the Governor's office for recipients of SFSF grant funds.

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.

Cause

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-17 Federal Grant Reporting (Modified and Repeated) (Significant Deficiency)
(Compliance/Other Matter) - Continued**

Questioned Costs

None.

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 Response

The HED Management Information System (MIS) and Senior Leadership Team will identify all upcoming deadlines. The Senior Leadership Team will monitor all deadlines and deliverables using MIS every two weeks to ensure all deadlines are met and deliverables are provided.

**2010-18 Federal Grant Monitoring (Modified and Repeated) (Significant Deficiency)
(Compliance/Other Matter)**

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

Title: Health Professional Loan Repayment Program (SLRP) CFDA Number: 93.402

Period 7/1/2010 – 6/30/2011

Funding Agency: U.S. Department of Education

Title: ARRA State Fiscal Stabilization Act (SFSF) CFDA Number: 84.394A and 84.397

Period 7/1/2010 – 6/30/2011

Condition

The Department failed to perform adequate sub-recipient monitoring during FY2011. There is no evidence of site visits to any institutions of higher education (IHE) to monitor pass-through Federal funds. There also is no evidence that sub-recipient audit reports were reviewed by the Department and followed up on, if applicable.

During our testing of sub-recipient monitoring requirements with respect to the SLRP Program, we identified a lack of documentation to show adequate sub-recipient monitoring. We identified 14 out of 50 items tested where there was not enough supporting documentation to determine whether the Department monitored that the institution of higher education expended the grant funds for allowable costs/activities. This item is also detailed in 2010-15 as an allowable cost finding.

In addition, the following conditions were noted during testwork of the SFSF program:

- Out of 3 IHE tested, we noted that the University of New Mexico (UNM) submitted 2 of 8 reports late, and 3 of 8 reports were not submitted at all by UNM. There was no evidence of follow up by the Department.
- We also noted the Department could not locate 2 of 8 reports from Central New Mexico Community College (CNM) and 1 of 8 CNM reports tested was incomplete. There was no evidence of follow up by the Department.
- Out of 8 reports tested for sub-recipient New Mexico State University (NMSU), 2 were received late and 3 were incomplete. There was no evidence of follow up by the Department.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**2010-18 Federal Grant Monitoring (Modified and Repeated) (Significant Deficiency)
(Compliance/Other Matter) - Continued**

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 sub-grant 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 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

A process to effectively 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. Financial aid eligibility is determined by each IHE, and non-compliance could potentially be the responsibility of the Department.

Cause

The Department performed a sample amount of desk reviews; however, sub-recipients were not carefully monitored to ensure specific grant compliance requirements. The Department did not have centralized record keeping, which caused grant information to be maintained by several individuals in different locations.

Questioned Costs

Unknown.

Recommendation

We recommend that the Department increase their monitoring and follow up on missing or incomplete information regarding reporting requirements by the institutions of higher education. We also recommend the Department develop policies to collect and maintain key information such as formal approval of recipient awards, all evidence of monitoring, and follow up actions. A rotating schedule for site visits, desk reviews and reporting would help track sub-recipient monitoring activities and comply with Federal requirements.

Department Response

Program management will establish a policy that requires specific sub-recipient monitoring for each grant program.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

2010-19 Federal Grant Level of Effort (Modified and Repeated) (Significant Deficiency)

Funding Agency: U.S. Department of Education

Title: ARRA State Fiscal Stabilization Act (SFSF) CFDA Number: 84.394A and 84.397

Period 7/1/2010 – 6/30/2011

Condition

During our testing of the level of effort requirements with respect to the SFSF program, the Department was unable to provide documentation to verify the process of monitoring the Level of Effort requirement for the grant. It appears the Department met the compliance requirement.

Criteria

The publication "Guidance on the State Fiscal Stabilization Fund Program" published program guidance that requires certain levels of effort to be achieved with this ARRA grant.

Effect

Controls over compliance requirements are crucial to the Department's Federal revenue stream. Without properly designed and implemented controls, the Department cannot guarantee compliance, which could negatively impact future Federal funding.

Cause

There appeared to be a lack of policy and documentation of the level of effort requirements under the SFSF program.

Questioned Costs

None.

Recommendation

We recommend the Department review their policies regarding maintenance of effort calculations, establish internal controls over the calculation and retention, and implement a policy for the maintenance of all program documentation.

Department Response

Procedures for all Federal grants will be developed to properly reflect a grant award each fiscal year.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

2010-20 Eligibility (Modified and Repeated) (Compliance/Other Matter)

**Funding Agency: U.S. Department of Health and Human Services
Title: Health Professional Loan Repayment Program (SLRP) CFDA Number: 93.402
Period 7/1/2010 – 6/30/2011**

Condition

Out of 2 students tested for eligibility, we noted the following conditions during testwork of the SLRP grant:

- one file did not have documentation of an active NM license or proof of U.S. citizenship.
- one file did not have documentation of proof of U.S. citizenship, and the signed employee form was signed prior to the end of period verification, therefore unable to show that employee was working full time as required by grant agreement.

Criteria

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

The Department experienced significant turnover and lack of tracking and policies during FY11 which affected compliance.

Questioned costs

Unknown.

Recommendation

We recommend the Department establish policies and responsibilities for monitoring grant participants to ensure they are in compliance with Federal standards.

Department Response

The Public Education Department (PED) was responsible for selection of students. However, in the future HED procedures for all Federal grants will be developed to properly reflect a grant award each fiscal year.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OTHER DISCLOSURES
YEAR ENDED JUNE 30, 2011**

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 April 23, 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

Atkinson CPAs Audit Firm

Marty Mathisen, CPA, CGFM, Audit Director

James Hartogensis, CPA, CGFM, Audit Senior Manager

Heather Prudhomme, CPA, Audit Senior

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