



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2012

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico
Higher Education Department

OFFICIAL ROSTER

June 30, 2012

Administrative Officials

| <u>Name</u> | <u>Title</u> |
|--------------------|--|
| Dr. Jose Garcia | Cabinet Secretary |
| Glenn Walters | Deputy Cabinet Secretary |
| Jennifer Moseley | Administrative Services Director/CFO |
| Francis Bannowsky | Director of Adult Basic Education Program |
| Kevin Deiters | Interim Financial Aid Director |
| Jaunna Whiting | Interim Director of GEAR UP Program |



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTS

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 (the Department or HED) as of and for the year ended June 30, 2012, 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, 2012, 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 for the matters discussed in the fifth and sixth paragraphs, 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 B1, 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, 2012, 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 B4, 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 \$17,398,695 and related loans forgiven due to the condition of the records.

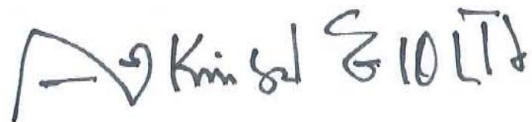
As described in Note S, the State of New Mexico's General Fund Investment Pool (GFIP) is not currently reconciled and bank to book balances exist. By statute, the Department maintains their cash investment balances at the GFIP. There are insufficient compensating controls and no other reconciling procedures are evident over the GFIP balances pertaining to HED at the agency. Accordingly, we did not obtain sufficient audit evidence to satisfy ourselves about the accuracy, rights and completeness of the financial statement amounts of approximately \$58 million, net of overdrafts. Any adjustments to the cash balance that might be necessary are uncertain at this time.

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) and the HED's share of the GFIP 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, 2012, 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, 2012, and the respective changes in financial position, thereof, and the respective budgetary comparisons for the non-major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated December 14, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 14, 2012

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended June 30, 2012

The following management's discussion and analysis (MD & A) provides an overview of the State of New Mexico Higher Education Department's (the Department or HED) financial activities for the fiscal year ended June 30, 2012. The MD & A is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Department's financial activity, (c) identify changes in the Department's financial position, (d) identify any material deviation from the financial plan (the approved budget) and (e) identify any financial issues or concerns. Please read it in conjunction with the Department's financial statements, which begin following this analysis.

Department Highlights

The Department is made up of one appropriated entity the New Mexico Higher Education Department. The New Mexico Higher Education Department provides financial, academic and policy oversight to ensure efficiency and success in New Mexico's system of higher education. HED is responsible for ensuring that the State's 27 higher learning institutions produce a skilled, educated workforce that will stimulate economic growth and bring prosperity to all the citizens of New Mexico.

The Department's requirements are to fund the higher education funding formula. In the General Appropriations act of 2011, New Mexico legislatures directed HED to overhaul the formula to shift from an input-based to an outcome-based approach. From February through October 2011, HED personnel jointed together with college and university stakeholders to develop a formula which met goals and provides stability for institutions. Through this process, HED produced a new formula that not only met the high standard of rewarding outcomes, but also delivered with the support of many stakeholders across the state. The new formula is based on four outcome measures – student credit hours completed total awards of certificates and degrees, workforce development, and outcomes for at-risk students.

HED's statutory authority is also responsible for administering the student financial aid program to assist students and their families with access, affordability, and opportunities for success in higher education.

Using the Annual Report

The Department's Basic Financial Statements (BFS) are presented in four parts, in the following order:

1. Department-wide Financial Statements,
2. Fund Financial Statements,
3. Budgetary Comparison Statements, and
4. Notes to the Basic Financial Statements.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

Department-wide Financial Statement: The department-wide financial statements include the first two financial statements: the Statement of Net Assets and the Statement of Activities. These statements report information on all of the financial activities and resources of the Department as a whole except for information applicable to fiduciary activities. Fiduciary activities represent funds held in trust for others. These funds are not included in the resources available to support the Department's governmental activities. Governmental activities are financed by general revenue appropriations and state and federal grants.

The Department-wide Statement of Net Assets reports the assets of the Department and the corresponding claims and liabilities against those assets at June 30, 2012. The difference between the value of the assets and the liabilities is reflected as the value of the net assets. Increases or decreases in net assets measure whether the financial position of the Department improved or deteriorated. Net assets legally limited to a particular use are reported as restricted. Unrestricted net assets are assets that can be used to fund operating expenses in future years. A deficit (negative) balance in unrestricted net assets would indicate that obligations incurred in the current and prior periods exceed the value of assets currently available, and that the assets of future periods will be required to meet the established obligations.

The Department-wide Statement of Activities reports the educational and education-related expenses and the cost of general government operations of the Department, with a comparison of the program revenues obtained to finance them, and the general revenues made available to fund the difference. The statement also reports the change in net assets during the 2012 fiscal year.

The Department's activities are grouped into the functional programs. The Education activities are funded from federal revenues provided primarily by the U.S. Department of Education.

Fund Financial Statements: The fund financial statements that follow the department-wide financial statements report on the financial position and changes in financial position of the individual funds used by the Department. Funds are separate accounting entities used in government accounting to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those financial resources. The Department uses two types of funds to account for its financial activities: governmental funds and fiduciary funds.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

Governmental Funds

Governmental funds are used to account for the finances of the governmental activities reported in the department-wide financial statements. The Department uses two types of governmental funds: a general fund to account for activities not required to be accounted for in other funds, and special revenue funds to account for collection and expenditure of earmarked and restricted fund resources (Note A).

Fiduciary Funds

Fiduciary funds are used to account for resources the Department holds for others. The Department uses three fiduciary funds. The **private-purpose trusts** are used for Endowed Merit Scholars and College Affordability. These two funds were created pursuant to Legislative Endowment Scholarship Act and College Affordability Endowment Act. Investment income is transferred to the Endowed Merit Scholar's special revenue fund and College Affordability Endowment special revenue fund for disbursement of scholarship on an annual basis, as needed.

The finances of these funds are reported in a separate Statement of Fiduciary Net Assets. The resources of these funds are excluded from the department-wide financial statements because they cannot be used to finance the Department's operations.

Education Trust Board of New Mexico

The Education Trust Board (ETB) is administratively attached to the Department pursuant to Laws of 1997, Chapter 259, and Section 21-21-K-1 through 21-21-K-7, NMSA 1978. The Department provides administrative services to the Education Trust Board when requested by the Board. This is not considered a component unit of the Higher Education Department, pursuant to requirements under the Governmental Accounting Standards Board pronouncement number 61.

Reconciliation of Department-wide Financial Statements to Fund Financial Statements: Differences in amounts reported in the department-wide financial statements versus the fund financial statements result from the different measurement focus and basis of accounting used. The measurement focus used for governmental funds is based on budgetary control and the flow of resources in the current year. As an example, capital purchases are treated as expenditures of the current year. Department-wide financial statements reflect such transactions as allocations over the time of use in the form of depreciation. A reconciliation of differences between department-wide and fund financial statements is provided in separate schedules that detail the differences in accounting treatment.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

Budgetary Comparisons: The budgetary comparison statements furnish a budget-to-actual comparison for all governmental funds to report compliance with the approved budget. The budget amounts reported are those in the original budget and in the amended budget, which reflects all legal adjustments made to the budget since the start of the fiscal year. The budgetary actual amounts are stated on the same basis as the budget figures.

Notes to the Financial Statements: The notes to the financial statements provide detailed information to support and explain key financial information presented in the department-wide and fund financial statements.

The notes provide information on the activities of the Department, on the basis of accounting used, and on accounting policies reflected in the financial statements to clarifying key financial information. They are integral to understanding the financial statements.

Supplementary Information: Supplementary information is provided to report the combining financial statements of non-major funds and fiduciary funds, to report the change in assets and liabilities of the agency fund, and to report the details of federal grant awards and expenditures. The information is provided in compliance with federal and state reporting requirements.

Financial Highlights

New Mexico Higher Education Department

- The Department has four (4) major funds.
- The General Fund (SHARE Fund 91000) accounts for administration of HED. The other funds are primarily pass-through funds and are described in more detail in the financial statement footnotes.

The Financial Aid Fund (SHARE Fund 21600) accounts for all financial aid type programs. The Lottery Tuition Fund (SHARE Fund 63700) accounts for all monies for distribution to New Mexico's public college educational institutions for tuition assistance for New Mexico's resident undergraduates. The Capital Projects Fund (SHARE Fund 64400) accounts 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.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

- The Department's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. We exclude these activities from the Department's other financial statements because the Department cannot use these assets to finance its operations. The Department is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the Department as a Whole

Net Assets

The Department's net assets at June 30, 2012 were \$56 million. Table A-1 summarizes the Department's net assets for the fiscal year ended June 30, 2012.

**Table A-1
Detail of Department Condensed Net Assets as of June 30, 2012 and 2011 (thousands)**

| | <u>2012</u> | <u>2011</u> | <u>Change</u> |
|---|------------------|------------------|--------------------|
| Assets: | | | |
| Current assets | \$ 78,072 | \$ 72,358 | \$ 5,714 |
| Non-current assets | 17,398 | 17,581 | (183) |
| Capital assets, net of accumulated depreciation | 88 | 146 | (58) |
| Total assets | <u>95,558</u> | <u>90,085</u> | <u>5,473</u> |
| Liabilities: | | | |
| Current liabilities | 39,334 | 14,309 | 25,025 |
| Compensated absences | 111 | 114 | (3) |
| Total liabilities | <u>39,445</u> | <u>14,423</u> | <u>25,022</u> |
| Total assets less liabilities | <u>56,113</u> | <u>75,662</u> | <u>(19,549)</u> |
| Net Assets: | | | |
| Investments in capital assets, net of debt | 88 | 146 | (58) |
| Restricted | 56,136 | 75,630 | (19,494) |
| Unrestricted | (111) | (114) | 3 |
| Total net assets | <u>\$ 56,113</u> | <u>\$ 75,662</u> | <u>\$ (19,549)</u> |

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

Changes in Net Assets

**Table A-2
Statement of Activities as of June 30, 2012 and 2011 (thousands)**

| | <u>2012</u> | <u>2011</u> | <u>Change</u> |
|--|------------------|------------------|--------------------|
| Program revenues: | | | |
| Program revenues | \$ 10,720 | \$ 36,800 | \$ (26,080) |
| Total program revenues | 10,720 | 36,800 | (26,080) |
| General revenues (expenses): | | | |
| State appropriations | 36,104 | 39,413 | (3,309) |
| Other financing sources | 1,040 | 3,525 | (2,485) |
| Education expenses | (127,071) | (157,350) | 30,279 |
| Reversions | (155) | (1,671) | 1,516 |
| Proceeds of State General obligations and severance tax bonds | 18,399 | 22,792 | (4,393) |
| Proceeds from Lottery | 41,329 | 41,307 | 22 |
| Miscellaneous | 17 | 245 | (228) |
| Total general revenues (expenses) | (30,337) | (51,739) | 21,402 |
| Investment earnings | 90 | 148 | (58) |
| Interest on loans | 38 | 31 | 7 |
| Loans forgiven - Principal | (60) | - | (60) |
| Total other investment incomes (expenses) | 68 | 179 | (111) |
| Change in net assets | (19,549) | (14,760) | (4,789) |
| Net assets beginning of year | 75,662 | 90,422 | (14,760) |
| Net assets, ending | <u>\$ 56,113</u> | <u>\$ 75,662</u> | <u>\$ (19,549)</u> |

HED's change in net assets decreased by \$19 million between years.

Education continues to be a priority of the state and the Department's operations are adequately supported by state resources.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

Changes in Capital Assets

During the fiscal year 2012, HED discovered assets were capitalized for items that were below the State's capitalization threshold of \$5,000, per Section 12-6-10 NMSA, 1978. As a result, certain adjustments were made. The net result of the change is a result of the decrease by 38%.

**Table A-3
Detail of Department Capital Assets as of June 30, 2012 and 2011 (thousands)**

| | <u>2012</u> | <u>2011</u> | <u>Change</u> |
|---------------------------|--------------|---------------|----------------|
| Equipment and machinery | \$ 368 | \$ 351 | \$ 17 |
| Furniture and fixtures | 34 | 130 | (96) |
| Vehicles | 77 | 77 | - |
| Accumulated depreciation | <u>(391)</u> | <u>(412)</u> | <u>21</u> |
| Total capital assets, net | <u>\$ 88</u> | <u>\$ 146</u> | <u>\$ (58)</u> |

Capital Assets for the Department are presented in Note F to the financial statements to illustrate changes from the prior year.

Reporting the Department's Most Significant Funds

The Department's two kinds of funds are classified into two categories: governmental and fiduciary. In turn, each category is divided into separate fund types. The fund classification and description of each existing fund type follow:

Governmental funds: Governmental funds are used to account for the Department's general government activities, including the collection and disbursement of specific or legally restricted monies. Governmental funds include:

- General Fund - The primary operating fund of the Department accounts for all financial resources, except those required to be accounted for in other funds.
- Special Revenue Funds - These account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fiduciary funds. Fiduciary funds account for assets held by the Department in a trustee capacity or as an agent on behalf of outside parties, including other governments, or on behalf of other funds within the Department.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

- Private purpose trust funds - These funds are used to account for trust arrangements under which principal or interest benefit specific individuals or organizations, but not the reporting government.
- Agency funds - These funds are used to account for assets held on behalf of individuals, private organizations, other government and/or other funds.

Budgetary Highlights

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 & Administration, with review by the Legislative Finance Committee.

Declining State General Fund budgeted revenues are attributed to the national recession. This has impacted New Mexico broad-based tax revenue, which has required appropriation of the General Fund to remain stagnant from FY 2011 to FY 2012.

HED budgetary statements are shown both in the major fund financial statements and the required supplemental information portion of the financial statements.

HED's General Fund (SHARE Fund 91000) accounts for administration and expenditures by category on a budgetary basis are shown below.

| | Final Budget | Actual Amount |
|---|-----------------|------------------|
| Personal services and employee benefits | \$ 3,245 | \$ 2,584 |
| Contractual services | 1,898 | 2,192 |
| Other | 18,081 | 17,134 |
| Total education | \$ 23,224 | \$ 21,910 |

HED's Financial Aid Fund (SHARE Fund 21600) accounts for all financial aid type programs expenditures by category on a budgetary basis are shown below.

| | Final Budget | Actual Amount |
|---|-----------------|------------------|
| Personal services and employee benefits | \$ - | \$ - |
| Contractual services | 53 | 52 |
| Other costs | 25,607 | 23,371 |
| Non-budgeted | - | - |
| Total education | \$ 25,660 | \$ 23,423 |

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

HED's Lottery Tuition Fund (SHARE Fund 63700) accounts for all monies for distribution to New Mexico's public college educational institutions for tuition assistance for New Mexico's resident undergraduates. The expenditures by category on a budgetary basis are shown below.

| | <u>Final Budget</u> | <u>Actual Amount</u> |
|---|-------------------------|--------------------------|
| Personal services and employee benefits | \$ - | \$ - |
| Contractual services | - | - |
| Other financing uses | <u>58,500</u> | <u>58,162</u> |
| Total education | <u>\$ 58,500</u> | <u>\$ 58,162</u> |

Economic and Budgetary Factors

National and State Economy: The national and state economies are experiencing increases in the rate of unemployment and the upcoming Fiscal Year 2013 is anticipated to have a greater downturn than that experienced during Fiscal Year 2011 due to impacts of cuts to federal funding due to federal sequestration to take effect on January 1, 2013. The economic growth has slowed, and economic performance is also down when compared to prior years. The state's projected shortfall in state revenue did impact the Department.

In FY 2010, the New Mexico General Appropriation Act of 2010, Section 14, provides that if the General Fund consensus revenue forecast projects that revenue and transfers to the State General Fund are insufficient to meet State General Fund appropriations, the Governor, with the approval of the State Board of Finance (SBF), must reduce the General Fund allotments to all agencies, funds and programs in Section 4 of the General Appropriation Act of 2010. Section 4 contains appropriations for agency operations. All agency cuts took effect in FY 2011 and 2012.

The Department and other state agencies are expected to continue to cut expenditures and costs while maintaining the same level of commitment to the state's higher education.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

Future Events That Will Financially Impact the Department

Budgetary Events: Due to activity in the oil and gas industry, the December 2012 Consensus Revenue Estimates for the State of New Mexico concludes to an upward trend in gross receipts. However, New Mexico is still realizing an un-employment rate of 6.3% in October. Forecasters are uncertain about recovering in 2013, but are optimistic about 2014 and 2015. The consensus forecast that the federal government will come to a compromise in regards to threats on “sequestration.” These compromises include “Bush era” tax cuts remaining in place in 2013, the 2 percent payroll tax cut and emergency unemployment benefits being extended for 2013 and then phased out slowly, and finally the automatic spending cuts replaced by a combination of spending cuts (including entitlements) and tax increases in FY 2014. Growth in real gross domestic product (GDP) is expected to increase in FY 2013 and 2014, however inflation in the US is expected to remain subdued.

In November 2013, the 2012 general election ballot was approved by voters. Thus allocations of money will be remitted to improve the aging facilities of New Mexico College and Universities. The total amount approved is \$119,400,000.

In June 2012, an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) system in July of 2006.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Thus, independent, third-party verification/confirmation of the New Mexico Higher Education Department balances at the business unit/fund level are not possible.

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

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the State's General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures. This will also impact the banking structure.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2012

Management believes that these changes will allow for the completion of a timely and accurate reconciliation on a *point-forward basis only*. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. HED will be working with the DFA on all changes that need to be implemented.

Contact Information
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State of New Mexico
Higher Education Department

STATEMENT OF NET ASSETS

June 30, 2012

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Investment in State Treasurer General Fund Investment Pool | \$ 60,988,129 |
| Due from other federal government | 8,455,211 |
| Due from other state agencies | 8,586,730 |
| Accounts receivable | 41,079 |
| Prepaid expenses | <u>570</u> |
| Total current assets | 78,071,719 |
| Loans and interest receivable, net of allowance for doubtful accounts of \$1,754,098 | 17,398,695 |
| Capital assets | 479,408 |
| Less: accumulated depreciation | <u>(391,377)</u> |
| Total assets | <u>\$ 95,558,445</u> |
| LIABILITIES AND NET ASSETS | |
| Current Liabilities | |
| Accounts payable | \$ 31,608,974 |
| Investment in State Treasurer General Fund Investment Pool overdraft | 2,652,848 |
| Accrued salaries and benefits payable | 114,758 |
| Due to project recipients | 2,073,714 |
| Due to other State General Fund | 2,881,177 |
| Compensated absences due within one year | 111,152 |
| Other liabilities | <u>2,110</u> |
| Total current liabilities | 39,444,733 |
| Long-term Liabilities | |
| Compensated absences due after one year | <u>-</u> |
| Total long-term liabilities | <u>-</u> |
| Total liabilities | 39,444,733 |
| Net Assets | |
| Invested in capital assets | 88,031 |
| Restricted | 56,136,833 |
| Unrestricted deficit | <u>(111,152)</u> |
| Total net assets | <u>56,113,712</u> |
| Total liabilities and net assets | <u>\$ 95,558,445</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|---|-----------------------|-------------------------|----------------------|--|
| | Expenses | Charges for Services | Operating Grants | Governmental Activities |
| Governmental activities | | | | |
| General governmental | \$ 6,529,518 | \$ - | \$ - | \$ (6,529,518) |
| Depreciation | 11,613 | - | - | (11,613) |
| Program activities | | | | |
| General governmental | | | | |
| IDEAL NM | 450,203 | - | 4 | (450,199) |
| Adult Basic Education | 9,930,673 | - | 4,273,732 | (5,656,941) |
| Veterans State Approving Agency | 170,001 | - | 165,797 | (4,204) |
| GEAR-UP | 4,000,967 | - | 3,941,031 | (59,936) |
| College Access Challenge | 214,535 | - | 562,755 | 348,220 |
| GEAR-UP Depreciation | 9,707 | - | - | (9,707) |
| Achieving the Dream | - | - | - | - |
| No Child Left Behind | 611,198 | - | 611,198 | - |
| Wallace Foundation | - | - | - | - |
| Financial Aid | 23,422,972 | - | 341,041 | (23,081,931) |
| Lottery | 58,161,699 | - | - | (58,161,699) |
| Other Funds | 23,558,450 | 199,250 | 625,507 | (22,733,693) |
| | \$ 127,071,536 | \$ 199,250 | \$ 10,521,065 | (116,351,221) |
| General revenues and (expenses) | | | | |
| State General Fund appropriations | | | | 36,104,116 |
| Bond proceeds | | | | 18,399,149 |
| Lottery proceeds | | | | 41,328,743 |
| Other financing sources | | | | 1,039,722 |
| Loans forgiven | | | | (60,163) |
| Miscellaneous revenue | | | | 53,247 |
| Loss on sale of capital assets | | | | (36,428) |
| | | | | 96,828,386 |
| Other investment income (expenses) | | | | |
| Investment earnings | | | | 90,113 |
| Interest on loans | | | | 39,863 |
| | | | | 129,976 |
| Reversions | | | | |
| Fiscal year | | | | (155,283) |
| | | | | (155,283) |
| Change in net assets | | | | (19,548,142) |
| Net assets, beginning | | | | 75,661,854 |
| Net assets, ending | | | | \$ 56,113,712 |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2012

| | 91000 General Fund | 21600 Financial Aid | 63700 Lottery Tuition | 64400 Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|--------------------------|---------------------------|-----------------------------|------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Interest in State Treasurer General | | | | | | |
| Fund Investment Pool | \$ - | \$ 1,375,815 | \$ 57,035,380 | \$ 1,182,152 | \$ 1,394,782 | \$ 60,988,129 |
| Due from other government agencies | - | 500,259 | 6,231,847 | 1,374,332 | 348,773 | 8,455,211 |
| Due from federal government | 7,808,949 | 777,781 | - | - | - | 8,586,730 |
| Due from other funds | 367,652 | (195) | - | - | 864,365 | 1,231,822 |
| Accounts receivable | 382 | 334 | 12,000 | - | 28,363 | 41,079 |
| Prepaid expenses | 570 | - | - | - | - | 570 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total assets | 8,177,553 | 2,653,994 | 63,279,227 | 2,556,484 | 2,636,283 | 79,303,541 |
| Non-current assets: | | | | | | |
| Loans and interest receivable, net of allowance for doubtful accounts | - | 17,398,851 | - | - | - | 17,398,851 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | <u>\$ 8,177,553</u> | <u>\$ 20,052,845</u> | <u>\$ 63,279,227</u> | <u>\$ 2,556,484</u> | <u>\$ 2,636,283</u> | <u>\$ 96,702,392</u> |
| LIABILITIES | | | | | | |
| Vouchers payable | \$ 3,191,253 | \$ 928,562 | \$ 26,386,221 | \$ 1,103,231 | \$ 1,974 | \$ 31,611,241 |
| Interest in State Treasurer General | | | | | | |
| Fund Investment Pool overdraft | 969,715 | - | - | - | 1,683,133 | 2,652,848 |
| Accrued payroll and benefits payable | 110,269 | - | - | - | 4,489 | 114,758 |
| Due to other funds | - | 367,457 | - | 864,365 | - | 1,231,822 |
| Due to the State General Fund | 2,881,177 | - | - | - | - | 2,881,177 |
| Due to project recipients | 1,024,569 | 6,750 | (9,734) | 703,973 | 348,156 | 2,073,714 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total liabilities | 8,176,983 | 1,302,769 | 26,376,487 | 2,671,569 | 2,037,752 | 40,565,560 |
| FUND BALANCES | | | | | | |
| Non-Spendable | | | | | | |
| Prepaid expenses | 570 | - | - | - | - | 570 |
| Spendable | | | | | | |
| Restricted | - | 18,750,076 | 36,902,740 | (115,085) | 598,531 | 56,136,262 |
| Committed | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total fund balances | 570 | 18,750,076 | 36,902,740 | (115,085) | 598,531 | 56,136,832 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total liabilities and fund balance | <u>\$ 8,177,553</u> | <u>\$ 20,052,845</u> | <u>\$ 63,279,227</u> | <u>\$ 2,556,484</u> | <u>\$ 2,636,283</u> | <u>\$ 96,702,392</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS –
GOVERNMENTAL FUNDS**

June 30, 2012

| | |
|---|-----------------------------|
| Total fund balance for the governmental fund (Balance Sheet) | \$ 56,136,832 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because | |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds. | |
| Capital assets | 479,408 |
| Accumulated depreciation | <u>(391,377)</u> |
| | 88,031 |
| Rounding | 1 |
| Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(111,152)</u> |
| Net assets of governmental activities (Statement of Net Assets) | <u><u>\$ 56,113,712</u></u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

| | 91000 General Fund | 21600 Financial Aid | 63700 Lottery Tuition | 64400 Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|--------------------------|---------------------------|-----------------------------|------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Federal sources | \$ 9,578,972 | \$ 341,041 | \$ - | \$ - | \$ 601,052 | \$ 10,521,065 |
| Licenses, permits and fees | - | - | - | - | 199,250 | 199,250 |
| Lottery proceeds | - | - | 41,328,743 | - | - | 41,328,743 |
| Interest on investments | - | 3,644 | 81,489 | - | 4,980 | 90,113 |
| Interest on loans | - | 39,863 | - | - | - | 39,863 |
| Miscellaneous revenue | 29,726 | 20,152 | 2,527 | - | 842 | 53,247 |
| Other grants | - | - | - | - | - | - |
| Total revenues | 9,608,698 | 404,700 | 41,412,759 | - | 806,124 | 52,232,281 |
| Expenditures | | | | | | |
| Personal services and employee benefits | 2,583,768 | - | - | - | 127,221 | 2,710,989 |
| Contractual services | 2,191,674 | 52,190 | - | - | 503,992 | 2,747,856 |
| Other | 17,134,487 | 23,370,782 | 58,161,699 | 16,401,574 | 6,525,663 | 121,594,205 |
| Capital outlay | - | - | - | - | - | - |
| Total expenditures | 21,909,929 | 23,422,972 | 58,161,699 | 16,401,574 | 7,156,876 | 127,053,050 |
| Excess (deficiency) of revenues over expenditures | (12,301,231) | (23,018,272) | (16,748,940) | (16,401,574) | (6,350,752) | (74,820,769) |
| Other Financing Sources (Uses) | | | | | | |
| State General Fund appropriations | 11,656,516 | 21,884,600 | - | - | 2,563,000 | 36,104,116 |
| Bond proceeds appropriations | - | - | - | 16,401,573 | 1,997,576 | 18,399,149 |
| Other financing sources | 799,998 | 29,950 | - | - | 209,774 | 1,039,722 |
| Other financing (uses) | - | - | - | - | - | - |
| Loans forgiven | - | (60,163) | - | - | - | (60,163) |
| Reversion to state general fund | (155,283) | - | - | - | - | (155,283) |
| Total other financing sources (uses) | 12,301,231 | 21,854,387 | - | 16,401,573 | 4,770,350 | 55,327,541 |
| Change in fund balances | - | (1,163,885) | (16,748,940) | (1) | (1,580,402) | (19,493,228) |
| Fund balances, beginning | 570 | 19,913,961 | 53,651,680 | (115,084) | 2,178,933 | 75,630,060 |
| Fund balances, ending | <u>\$ 570</u> | <u>\$ 18,750,076</u> | <u>\$ 36,902,740</u> | <u>\$ (115,085)</u> | <u>\$ 598,531</u> | <u>\$ 56,136,832</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**RECONCILIATION TO THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES –
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

Net change in Fund Balance - Total Governmental Funds \$ (19,493,228)
(Statement of Revenues, Expenditures and Changes in Fund Balance)

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

Capital outlays to purchase or build capital assets are reported in
governmental funds as expenditures. However, for governmental
activities these costs are shown in the Statement of Net Assets and
allocated over their estimated useful lives as annual depreciation
expenses in the Statement of Activities.

| | | |
|-------------------------|-----------------|----------|
| Capital asset additions | \$ - | |
| Depreciation expense | <u>(21,320)</u> | (21,320) |

Governmental funds only report the disposal of capital assets to the extent
proceeds are received from the sale. In the Statement of Activities,
a gain or loss is reported for each disposal. This is the amount of the
net book value of the capital assets disposed of which is recorded as a loss. (36,428)

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.

| | |
|--------------------------------|--------------|
| Change in compensated absences | <u>2,834</u> |
|--------------------------------|--------------|

| | |
|---|-------------------------------|
| Change in net assets of governmental activities (Statement of Activities) | <u><u>\$ (19,548,142)</u></u> |
|---|-------------------------------|

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
GENERAL FUND (FUND 91000)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------------|--|
| Revenues | | | | |
| Federal sources | \$ 10,318,100 | \$ 11,660,561 | \$ 9,578,972 | \$ (2,081,589) |
| Other gifts and grants | - | 192,602 | - | (192,602) |
| Miscellaneous | - | - | 29,726 | 29,726 |
| Total revenues | 10,318,100 | 11,853,163 | 9,608,698 | (2,244,465) |
| Prior year fund balance budgeted | - | - | | |
| Total budgeted revenues | 10,318,100 | 11,853,163 | | |
| Expenditures | | | | |
| Personal services and benefits | 3,421,100 | 3,245,039 | 2,583,768 | 661,271 |
| Contract services | 1,328,600 | 1,898,357 | 2,191,674 | (293,317) |
| Other costs | 9,709,400 | 18,081,267 | 17,134,487 | 946,780 |
| Total budgeted expenditures | 14,459,100 | 23,224,663 | 21,909,929 | 1,314,734 |
| Excess (deficiency) of revenue over expenditures | (4,141,000) | (11,371,500) | (12,301,231) | (3,559,199) |
| Other financing sources (uses) | | | | |
| General fund appropriations | 11,456,500 | 11,371,500 | 11,656,516 | 285,016 |
| Other financing sources | - | - | 799,998 | 799,998 |
| Other financing (uses) | (7,315,500) | - | - | - |
| Reversions | - | - | (155,283) | (155,283) |
| Net change in fund balance | \$ - | \$ - | \$ - | \$ (2,629,468) |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
FINANCIAL AID PROGRAMS (FUND 21600)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Favorable (Unfavorable) |
|---|--------------------|-------------------|----------------|----------------------------|
| Revenues | | | | |
| Federal sources | \$ 925,000 | \$ 925,000 | \$ 341,041 | \$ (583,959) |
| Other gift and grants | 500,000 | 500,000 | - | (500,000) |
| Interest on investments | 109,400 | 109,400 | 3,644 | (105,756) |
| Interest on loans | - | - | 39,863 | 39,863 |
| Miscellaneous revenue | - | - | 20,152 | 20,152 |
| | | | | |
| Total budgeted revenues | 1,534,400 | 1,534,400 | 404,700 | (1,129,700) |
| | | | | |
| Prior year fund balance budgeted | 8,000 | 8,000 | | |
| | | | | |
| Total budgeted revenues | 1,542,400 | 1,542,400 | | |
| Expenditures | | | | |
| Contractual services | 53,500 | 53,500 | 52,190 | 1,310 |
| Other costs | 12,219,600 | 25,607,200 | 23,370,782 | 2,236,418 |
| | | | | |
| Total budgeted expenditures | 12,273,100 | 25,660,700 | 23,422,972 | 2,237,728 |
| Excess (deficiency) of revenue over expenditures | | | | |
| | (10,730,700) | (24,118,300) | (23,018,272) | (3,367,428) |
| Other financing sources (uses) | | | | |
| State General Fund appropriations | 21,884,600 | 21,884,600 | 21,884,600 | - |
| Other financing sources | - | 2,233,700 | 29,950 | (2,203,750) |
| Other financing (uses) | (11,153,900) | - | - | - |
| Loans forgiven - principal | - | - | (60,163) | (60,163) |
| Transfers and reversions | - | - | - | - |
| | | | | |
| Net change in fund balance | \$ - | \$ - | \$ (1,163,885) | \$ (5,631,341) |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
LOTTERY TUITION FUND (FUND 63700)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Favorable (Unfavorable) |
|---|--------------------|--------------------|------------------------|----------------------------|
| Revenues | | | | |
| Lottery proceeds | \$ 42,302,700 | \$ 42,302,700 | \$ 41,328,743 | \$ (973,957) |
| Interest on investments | - | - | 81,489 | 81,489 |
| Miscellaneous revenue | - | - | 2,527 | 2,527 |
| Total budgeted revenues | 42,302,700 | 42,302,700 | 41,412,759 | (889,941) |
| Prior year cash budgeted | 7,197,300 | 7,197,300 | | |
| Total budgeted revenues | 49,500,000 | 49,500,000 | | |
| Expenditures | | | | |
| Other costs | 2,393,000 | 58,500,000 | 58,161,699 | 338,301 |
| Total budgeted expenditures | 2,393,000 | 58,500,000 | 58,161,699 | 338,301 |
| Excess (deficiency) of revenue over expenditures | 47,107,000 | (9,000,000) | (16,748,940) | (1,228,242) |
| Other financing sources (uses) | | | | |
| Other financing sources | - | 9,000,000 | - | (9,000,000) |
| Other financing (uses) | (47,107,000) | - | - | - |
| Net change in fund balance | \$ - | \$ - | \$ (16,748,940) | \$ (10,228,242) |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
CAPITAL PROJECTS FUND (FUND 64400)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|---------------|--|
| Revenues | | | | |
| Other revenues | \$ - | \$ - | \$ - | \$ - |
| Miscellaneous revenue | - | - | - | - |
| Total budgeted revenues | - | - | - | - |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | - | 16,401,574 | (16,401,574) |
| Total budgeted expenditures | - | - | 16,401,574 | (16,401,574) |
| Excess (deficiency) of revenue over expenditures | - | - | (16,401,574) | (16,401,574) |
| Other financing sources (uses) | | | | |
| Bond proceeds appropriations | - | - | 16,401,573 | 16,401,573 |
| Other financing sources | - | - | - | - |
| Other financing (uses) | - | - | - | - |
| Reversion | - | - | - | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1)</u> | <u>\$ (1)</u> |

Revenues and expenses should always be equivalent in this fund. The timing of capital project reimbursement requests is not always susceptible to budget estimation.

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

| | 88100 Endowed Merit Scholars Private-Purpose Trust Fund | 23900 College Affordability Endowment Trust Fund | Total Trust Fund |
|---|---|--|----------------------|
| ASSETS | | | |
| Interest in State Treasurer General Fund Investment Pool | \$ 2,179,222 | \$ - | \$ 2,179,222 |
| Long-term investments (net) | - | 22,311,783 | 22,311,783 |
| Total assets | 2,179,222 | 22,311,783 | 24,491,005 |
| LIABILITIES | | | |
| Interest in State Treasurer General Fund Investment Pool overdraft | - | 14,074,200 | 14,074,200 |
| Due to other agencies | - | - | - |
| Total liabilities | - | 14,074,200 | 14,074,200 |
| Assets held for others | | | |
| In-trust for scholarships | <u>\$ 2,179,222</u> | <u>\$ 8,237,583</u> | <u>\$ 10,416,805</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

June 30, 2012

| | 88100 Endowed Merit Scholars Private-Purpose Trust Fund | 23900 College Affordability Endowment Trust Fund | Total Trust Fund |
|--|---|--|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Balance as of July 1, 2011 | \$ 2,179,222 | \$ 18,298,884 | \$ 20,478,106 |
| ADDITIONS | | | |
| Interest from investments | - | 420,007 | 420,007 |
| Unrealized (loss) on investments | - | (461,111) | (461,111) |
| General Fund appropriation | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total additions | - | (41,104) | (41,104) |
| DEDUCTIONS | | | |
| Professional investment fees | - | 20,197 | 20,197 |
| Distributions in accordance with trust agreements | - | 10,000,000 | 10,000,000 |
| Operating transfers | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total deductions | - | 10,020,197 | 10,020,197 |
| Balance as of June 30, 2012 | <u>\$ 2,179,222</u> | <u>\$ 8,237,583</u> | <u>\$ 10,416,805</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A – HISTORY AND FUNCTION

The State of New Mexico, Higher Education Department (the Department or HED) 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 & Administration. The Department evaluates and approves proposals for new graduate degree programs and major capital projects.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Department have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) 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:

1. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Reporting Entity and Component Units – Continued

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.

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.

2. 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

GOVERNMENT-WIDE AND FIDUCIARY FUNDS FINANCIAL STATEMENTS – CONTINUED

Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reflected on the full accrual basis, economic resource measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Department's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. In addition, revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement 33, *Accounting and Financial Reporting for Non-exchange Transactions*, which was adopted by the Department on July 1, 2001. Capital assets are reported at historical cost and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government) which is otherwise supported by general government revenues. The Statement of Activities reduces gross expense (including depreciation expense on capital assets) by related program revenues. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. 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:

- a) General Fund, SHARE #91000
- b) Financial Aid Fund, SHARE #21600
- c) Lottery Tuition Fund, SHARE #63700
- d) Capital Projects, SHARE #64400

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

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

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

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 (SHARE 91000) – 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 – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. 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)

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

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)

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.

4. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Education Trust Board of New Mexico – Continued

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.

5. Basis of Accounting

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet. The reported fund balance is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they present a summary of sources and uses of available spendable resources during a period. Revenues are recognized as soon as they are both measurable and available.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Basis of Accounting – Continued

Revenues are available if collectible within the current period or soon enough afterwards to pay liabilities of the current period. Revenues are available if collected within sixty days of the end of the fiscal year. Expenditures are recorded when a liability is incurred, as under full accrual accounting. The Department does not have any debt service expenditures. The current portion of the compensated absences liability is not included in the fund financial statements because the State of New Mexico does not budget for any compensated absences in the current year.

6. 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 State of New Mexico, Budget Division of the Department of Finance & 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:

- a) No later than September 1, the Department submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance & 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.
- b) 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Budget and Budgetary Accounting – Continued

- c) 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.
- d) No later than May 1, the Department submits to the 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.
- e) Legal budgetary control for expenditures is at the appropriation unit level.
- f) Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds.
- g) 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 & 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Budget and Budgetary Accounting – Continued

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.

For the year ended June 30, 2012, the Department exceeded final budgetary expenditure levels for the following programs. See also Finding 2010-09 at page 98.

- General Fund (SHARE Fund 91000)
 - Contractual Services - \$293,319
- Student Financial Aid Fund (SHARE Fund 21600)
 - Other financing uses - \$29,950
- Capital Projects Fund (SHARE Fund 64400)
 - Other Costs –\$16,401,574
- Capital Projects Fund 2011 (SHARE Fund 89200)
 - Other Costs - \$1,997,576
- ARRA Fund (SHARE Fund 89000)
 - Other Costs - \$101,052
- College Affordability Scholarship (SHARE Fund 21700)
 - The Department exceeded its available fund balance

7. Interest in General Fund Investment Pool

The Department's funds are held by the State Treasurer as an interest in the State General Fund Investment Pool (GFIP) for purposes of cash flows. The Department considers all highly liquid investments, which are on deposit with the State Treasurer, as interest in the GFIP.

8. 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, 2012.

9. 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, 2012.

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, 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. 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.

11. Accrued Payroll and Benefits Payable

A portion of payroll expenditures (fourteen working days) was accrued pertaining to the year ended June 30, 2012. 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, 2012.

12. 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.

13. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Accrued Compensated Absences – Continued

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.

14. Federal Grants Receivable and 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. Grant revenue is recorded when all eligibility requirements have been met, including incurred program expenditures. 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.

15. 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, 2012, for prepaid expenses that are in non-spendable form.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. 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 \$56,136,833 in special revenue funds as of June 30, 2012.

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, 2012.

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, 2012.

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. There are no unassigned balances in government funds at June 30, 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Fund Balances – Continued

Unassigned Fund Balances – Continued

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.

Fund 21700, College Affordability Scholarship, has a negative fund balance due to its overdraft position at the GFIP. Fund 64400, Capital Projects, has an immaterial negative fund balance due to the prior year's transaction.

16. Net Assets

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

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

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 \$56,136,833 which represents all restricted net assets reported on page 15.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

17. Use of Estimates

The preparation of the 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.

18. Short-Term Debt

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

NOTE C – CASH AND INVESTMENTS (UNAUDITED)

Included in cash and cash equivalents is \$60,988,129 of funds that are held in the State Treasurer's General Fund Investment Pool (GFIP). The Department is required by statute to deposit any money received into the State Treasury. Balances maintained at the end of the day are pooled and invested by the State Treasurer. The state Treasurer issues separate financial statements that disclose the collateral pledged to secure these deposits, categories of risk involved and the fair value of purchased investments.

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

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, 2012. 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.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE C – CASH AND INVESTMENTS (UNAUDITED) – CONTINUED

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, 2012, 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 circumstances described in Note S raise a concern about the accuracy of the Department's share of the GFIP. There were not sufficient compensating controls identified and accounts were not reconciled during the year ended June 30, 2012 to afford an opinion on the GFIP balances. Accordingly, the scope of our procedures was insufficient for the year 2012. Adjustments to the balances that might be necessary are not known at this time.

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 – CONTINUED

June 30, 2012

NOTE C – CASH AND INVESTMENTS (UNAUDITED) – CONTINUED

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

| SHARE Fund No. | Fund/Program | (Unaudited) State Treasre Balance | Outstanding Warrants | (Unaudited) Reconciled Balance |
|---|---|---|-------------------------|--------------------------------------|
| 91000 | General Fund | \$ (969,715) | \$ - | \$ (969,715) |
| 10990 | ABE Instructional Materials | - | - | - |
| 21600 | Student Financial Aid | 1,375,815 | - | 1,375,815 |
| 21700 | College Affordability Scholarship | (818,768) | - | (818,768) |
| 23900 | College Affordability Endowment | (14,074,200) | - | (14,074,200) |
| 29200 | College Goal Sunday Grant | 8,481 | - | 8,481 |
| 34400 | Post-Secondary Education Institution Fund | 535,668 | - | 535,668 |
| 47900 | Faculty Endowment Fund | 82,901 | - | 82,901 |
| 54500 | Performance Fund | 2,068 | - | 2,068 |
| 63700 | Lottery Tuition Fund | 57,035,380 | - | 57,035,380 |
| 64400 | Capital Projects | 1,182,152 | - | 1,182,152 |
| 78200 | Performance Development Fund | 54,041 | - | 54,041 |
| 88100 | Legislative Endowment Scholarship | 2,890,845 | - | 2,890,845 |
| 89000 | American Recovery and Reinvestment Act | - | - | - |
| 89200 | Capital Projects (FY 2012) | (864,365) | - | (864,365) |
| | | <u>\$ 46,440,303</u> | <u>\$ -</u> | 46,440,303 |
| Less: | | | | |
| 88100 | Legislative Endowment Scholarship Non-expendable Trust Fund included above | | | (2,179,222) |
| 23900 | College Affordability Scholarship | | | <u>14,074,200</u> |
| | Total expendable cash | | | <u>\$ 58,335,281</u> |
| Non-expendable Trust Fund: | | | | |
| 88100 | Legislative Endowment Scholarship Non-expendable Trust Fund included above | | | \$ 2,179,222 |
| 23900 | College Affordability Scholarship | | | <u>(14,074,200)</u> |
| | Total non-expendable cash (overdraft) | | | <u>\$ (11,894,978)</u> |
| Reconciliation to Statements of Net Assets: | | | | |
| | Cash and investments | | | \$ 60,988,129 |
| | Less: overdraft | | | <u>(2,652,848)</u> |
| | Total expendable cash | | | <u>\$ 58,335,281</u> |

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE C – CASH AND INVESTMENTS (UNAUDITED) – CONTINUED

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

The value of the investments maintained at the State Investment Council External Pooled Investment Funds are as follows at June 30, 2012:

| | <u>Fair Value</u> |
|-----------------------------|----------------------|
| Core Bond Fund | \$ 4,682,396 |
| Large Cap Active Fund | 6,293,192 |
| Large Cap Index Fund | 6,280,523 |
| Mid/Small Cap Active Fund | 3,274,717 |
| Non US Developed | 1,161,984 |
| US Emerging Markets | <u>618,971</u> |
| Total long-term investments | <u>\$ 22,311,783</u> |

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

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

Please see the financial statements of the SIC 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.

NOTE D – RECEIVABLES

1. Due from Other Government Agencies

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

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE D – RECEIVABLES – CONTINUED

1. Due from Other Government Agencies – Continued

| SHARE Fund No. | Fund/Program | Description | Amount | Due From |
|-------------------|-------------------------------------|-----------------------------|---------------------|----------------------------------|
| 91000 | General Fund | General Fund | \$ 7,808,949 | Federal Government |
| 21600 | Financial Aid | Financial Aid | <u>777,781</u> | Federal Government |
| | | | <u>\$ 8,586,730</u> | |
| 64400 | Capital Projects | Bond proceeds | \$ 1,374,332 | New Mexico Board of Finance |
| 63700 | Lottery Tuition | Lottery proceeds | 6,231,847 | NM Lottery |
| 21600 | Financial Aid | Grant proceeds | 500,259 | Office of the NM State Treasurer |
| 29200 | College Goal | Accrual investment interest | 2 | Office of the NM State Treasurer |
| 47900 | Faculty Endowment | Accrual investment interest | 17 | Office of the NM State Treasurer |
| 78200 | Development Enhancement | Accrual investment interest | 5 | Office of the NM State Treasurer |
| 88100 | Endowed Merit Scholarships | Accrual investment interest | 593 | Office of the NM State Treasurer |
| 89200 | Capital Projects (FY 2012) | NMJC Roof | <u>348,156</u> | New Mexico Board of Finance |
| | Total Due from Other State Agencies | | <u>\$ 8,455,211</u> | |

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 & Administration, as of June 30, 2012 follows:

| | Group | Approp. ID | Approp. End Date | Amount Sold | Amount Draw | Amount AIPP | Balance Held by State Board of Finance June 30, 2012 | SHARE # Capital Project Fund |
|--|---------|---------------|---------------------|----------------------|------------------------|---------------------|---|---------------------------------------|
| HED Library Acquisitions | GOB09 | 08-4932 | 6/30/2012 | \$ 3,000,000 | \$ (3,036,691) | \$ - | \$ (36,691) | 64400 |
| CCC Allied Health Building | GOB09 | 08-4933 | 6/30/2012 | 4,000,000 | (3,554,666) | (40,000) | 405,334 | 64400 |
| SJC Health Sciences Center | GOB09 | 08-4934 | 6/30/2012 | 5,000,000 | (4,936,160) | (50,000) | 13,840 | 64400 |
| UNM Dental Residency ED Facilities Statewide | GOB09 | 08-4935 | 6/30/2012 | 7,000,000 | (6,930,000) | (70,000) | - | 64400 |
| CNMCC Westside Campus | GOB09 | 08-4943 | 6/30/2012 | 12,000,000 | (11,880,000) | (120,000) | - | 64400 |
| MCC North Amer Wind Research and Training | GOB09 | 08-4944 | 6/30/2012 | 7,000,000 | (6,929,840) | (70,000) | 160 | 64400 |
| LLC Multipurpose Education Center | GOB09 | 08-4945 | 6/30/2012 | 4,500,000 | (4,453,552) | (45,000) | 1,448 | 64400 |
| Library Acquisitions Academic Statewide | GOB11 | 08-4947 | 6/30/2014 | 2,000,000 | (895,078) | - | 1,104,922 | 64400 |
| NMJC Roof Improve/Replace | STB10SA | 10-1229 | 6/30/2014 | <u>3,000,000</u> | <u>(3,379,456)</u> | - | <u>(379,456)</u> | 89200 |
| | | | | <u>\$ 47,500,000</u> | <u>\$ (45,995,443)</u> | <u>\$ (395,000)</u> | <u>\$ 1,109,557</u> | |

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE D – RECEIVABLES – CONTINUED

2. Due From Federal Government

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

3. 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 2012. These amounts are as follows:

| (Unaudited) Loan for Service Program | Loans Receivable | Interest Receivable | Total Loan and Interest Receivable | Allowance for Doubtful Accounts |
|---|----------------------|------------------------|--|---------------------------------------|
| Allied Health Services Loan | \$ 579,302 | \$ 36,753 | \$ 616,055 | \$ - |
| Medical Student Loan | 1,890,933 | 342,447 | 2,233,380 | - |
| Minority Doctoral Loan | 945,055 | 44,067 | 989,122 | - |
| Nursing Student Loan | 2,037,912 | 988,152 | 3,026,064 | - |
| Osteopathic Student Loan | 310,446 | 84,948 | 395,394 | - |
| Southeastern NM Teachers | 500,134 | 147,111 | 647,245 | - |
| WICHE | 10,790,624 | 119,189 | 10,909,813 | - |
| Dentistry | 335,720 | - | 335,720 | 1,754,098 |
| | <u>\$ 17,390,126</u> | <u>\$ 1,762,667</u> | <u>\$ 19,152,793</u> | <u>\$ 1,754,098</u> |

Loans and interest receivable and the associated allowance for doubtful accounts are unaudited.

State of New Mexico
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE E – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2012, is as follows:

| | Balance June 30, 2011 | Additions | Adjustments | Deletions | Balance June 30, 2012 |
|--|--------------------------|--------------------|--------------------|-------------|--------------------------|
| Capital assets: | | | | | |
| Equipment and machinery | \$ 350,568 | \$ - | \$ 16,998 | \$ - | \$ 367,566 |
| Furniture and fixtures | 130,091 | - | (95,429) | - | 34,662 |
| Vehicles | 77,180 | - | - | - | 77,180 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total at historical cost | 557,839 | - | (78,431) | - | 479,408 |
| Less accumulated depreciation: | | | | | |
| Equipment and machinery | 327,084 | 12,684 | (22,036) | - | 317,732 |
| Furniture and fixtures | 53,636 | 918 | (19,965) | - | 34,589 |
| Vehicles | 31,338 | 7,718 | - | - | 39,056 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total accumulated depreciation | 412,058 | 21,320 | (42,001) | - | 391,377 |
| Other capital assets, net | <u>\$ 145,781</u> | <u>\$ (21,320)</u> | <u>\$ (36,430)</u> | <u>\$ -</u> | <u>\$ 88,031</u> |
| Net capital assets: | | | | | |
| Equipment and machinery | \$ 23,484 | \$ (12,684) | \$ 39,034 | \$ - | \$ 49,834 |
| Furniture and fixtures | 76,455 | (918) | (75,464) | - | 73 |
| Vehicles | 45,842 | (7,718) | - | - | 38,124 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total net capital assets | <u>\$ 145,781</u> | <u>\$ (21,320)</u> | <u>\$ (36,430)</u> | <u>\$ -</u> | <u>\$ 88,031</u> |
| Depreciation expense was charged to function as follows: | | | | | |
| GEAR UP program | | | | | \$ 9,707 |
| General government | | | | | 11,613 |
| | | | | | <hr/> |
| Total depreciation | | | | | <u>\$ 21,320</u> |

The Department does not have any debt related to capital assets at June 30, 2012. Depreciation expense for the current year was \$21,320 and is included in the “Governmental activities” and “Program activities” functions in the Statement of Activities.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE F – 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.

A summary of changes in the compensated absences payable for the year ended June 30, 2012, is as follows:

| | Balance June 30, 2011 | Increase | Decrease | Balance June 30, 2012 | Amount Due Within One Year |
|------------------------------|--------------------------|------------|--------------|--------------------------|----------------------------------|
| Compensated absences payable | | | | | |
| General Fund | \$ 113,986 | \$ 113,986 | \$ (116,820) | \$ 111,152 | \$ 111,152 |

NOTE G – DUE TO OTHER AGENCIES AND STATE GENERAL FUND/REVERSIONS

With the exception of State General Fund appropriations subject to reversion, the Department was a non-reverting agency in the year ended June 30, 2012. The following shows the computation of the amount due to the State General Fund at June 30, 2012:

1. Due to State General Fund

| | 91000 General Fund | 21600 Financial Aid | 89000 American Recovery and Reinvestment Act | Due from Non-Major | Total |
|--|-----------------------|------------------------|--|-----------------------|--------------|
| Due to State General Fund as of June 30, 2012 | \$ 2,881,177 | \$ - | \$ - | \$ - | \$ 2,881,177 |

2. Reversion

| Year ended June 30 | Reversion Amount |
|--------------------|---------------------|
| 2012 | \$ 155,283 |
| 2011 and 2010 | 2,725,894 |
| Total reversions | \$ 2,881,177 |

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE H – 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, 2012 were \$345,085. Future minimum payments under these operating leases are as follows:

| <u>Year ended June 30</u> | <u>Amount</u> |
|---------------------------|-------------------|
| 2013 | \$ 349,415 |
| 2014 | 352,105 |
| 2015 | 159,512 |
| 2016 | 24,757 |
| 2017 | <u>14,441</u> |
| | <u>\$ 900,230</u> |

NOTE I – 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 – CONTINUED

June 30, 2012

NOTE J – OTHER FINANCING USES/SOURCES

| Fund No. | Fund Name/Description | Financing Sources | Financing Uses |
|----------|---|---------------------|----------------|
| 91000 | General Fund | | |
| | Various corrections/refunds | \$ 799,998 | \$ - |
| | Various institutions | (2) | - |
| 21600 | Financial Aid | | |
| | State Student Incentive - Grants refund | 29,950 | - |
| 10990 | ABE Instruction Materials | | |
| | Funds from Public Education Department awarded for scholarship | 209,774 | - |
| 89000 | State Fiscal Stabilization Fund | | |
| | State-wide supplemental grants to institutions | <u>601,052</u> | <u>-</u> |
| | Total | <u>\$ 1,640,772</u> | <u>\$ -</u> |

NOTE K – 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 | \$ 11,656,516 | \$ 21,884,600 | \$ 2,563,000 | \$ - | \$ - | \$ 36,104,116 |
| State Board of Finance | 34100 | 85300 | Bond Proceed Appropriation | - | - | - | 16,401,573 | 1,997,576 | 18,399,149 |
| | | | | <u>\$ 11,656,516</u> | <u>\$ 21,884,600</u> | <u>\$ 2,563,000</u> | <u>\$ 16,401,573</u> | <u>\$ 1,997,576</u> | <u>\$ 54,503,265</u> |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE L – 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, 2012, 2011, and 2010, were \$247,518, \$332,922, and \$424,681, respectively, which equal the amount of the required contributions for each year.

NOTE M – 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 post-employment health care 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 health care plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE M – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH PLAN – CONTINUED

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment health care 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 health care 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, 2012, 2011, and 2010, were \$34,303, \$36,301, and \$35,902, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE N – 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.

NOTE O – 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.

NOTE P – 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.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE Q – 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 2012. The Department incurred \$139,192 in expenditures for the year ended June 30, 2012.

NOTE R – SUBSEQUENT EVENTS

Events subsequent to June 30, 2012 have been evaluated by management through December 14, 2012, the date of the auditor's report. In the opinion of management, no events occurring after June 30, 2012 require adjustment to the financial statements.

NOTE S – GENERAL FUND INVESTMENT POOL NOT RECONCILED

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

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury. By Statute 6-5-2.1(J) NMSA 1978, DFA should reconcile the operating account monthly.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Department's balances at the business unit/fund level is not possible.

The following information is provided by the Department of Finance & Administration in relation to remedial efforts and expected timing:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE S – GENERAL FUND INVESTMENT POOL NOT RECONCILED – CONTINUED

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

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

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

NOTE T – NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has published statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record the government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for members of multiemployer cost sharing plans. The Department is a participating member of the Public Employees Retirement Association (PERA), a multiemployer cost sharing plan. See Note F. Other changes arising from these statements are significant and the Department will comply with these changes as information for implementation is provided by PERA and the State of New Mexico. The implementation date for statement No. 68, most relevant to the Department is for FY 2015. The current status of the unfunded liability for PERA is \$4.97 billion based on the most recently issued audited financial statement at June 30, 2011.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS

June 30, 2012

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2012

Special Revenue Funds – Continued

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

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

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

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2012

Special Revenue Funds – Continued

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.

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2012

Special Revenue Funds – Continued

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2012

Special Revenue Funds – Continued

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

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

State of New Mexico
Higher Education Department

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2012

Special Revenue Funds – Continued

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.

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.

State of New Mexico
Higher Education Department

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS

June 30, 2012

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.

State of New Mexico
Higher Education Department

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS - CONTINUED

June 30, 2012

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

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

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

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.

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, 2012

| | 10990 | 21700 | 29200 | 34400 | 47900 | 54500 | 78200 | 88100 | 89000 | 89200 | Total |
|--|---------------|-------------------|-----------------|-------------------|------------------|-----------------|------------------|-------------------|-------------|---------------------|---------------------|
| | ABE | College | College Goal | Post-Secondary | | Higher | Program | Legislative | | Capital | Non-Major |
| | Instructional | Affordability | Sunday | Educational | Faculty | Education | Development | Endowment | | Projects | Governmental |
| | Materials | Scholarship | Grant | Institution | Endowment | Performance | Enhancement | Scholarship | ARRA | FY2011 | Funds |
| ASSETS | | | | | | | | | | | |
| Interest in State Treasurer General | | | | | | | | | | | |
| Fund Investment Pool | \$ - | \$ - | \$ 8,481 | \$ 535,668 | \$ 82,901 | \$ 2,068 | \$ 54,041 | \$ 711,623 | \$ - | \$ - | \$ 1,394,782 |
| Due from other state agencies | - | - | 2 | - | 17 | - | 5 | 593 | - | 348,156 | 348,773 |
| Accounts receivable | - | (4,867) | - | 33,230 | - | - | - | - | - | - | 28,363 |
| Due from other funds | - | - | - | - | - | - | - | - | - | 864,365 | 864,365 |
| Due from federal government | - | - | - | - | - | - | - | - | - | - | - |
| Total assets | \$ - | \$ (4,867) | \$ 8,483 | \$ 568,898 | \$ 82,918 | \$ 2,068 | \$ 54,046 | \$ 712,216 | \$ - | \$ 1,212,521 | \$ 2,636,283 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | |
| Vouchers payable | \$ - | \$ - | \$ - | \$ 1,974 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,974 |
| Interest in State Treasurer Federal | | | | | | | | | | | |
| Fund Investment Pool - overdraft | - | 818,768 | - | - | - | - | - | - | - | 864,365 | 1,683,133 |
| Accrued payroll and benefits payable | - | - | - | 4,489 | - | - | - | - | - | - | 4,489 |
| Due to other funds | - | - | - | - | - | - | - | - | - | - | - |
| Due to project recipients | - | - | - | - | - | - | - | - | - | 348,156 | 348,156 |
| Due to state general fund | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | - | 818,768 | - | 6,463 | - | - | - | - | - | 1,212,521 | 2,037,752 |
| Fund Balances | | | | | | | | | | | |
| Spendable | | | | | | | | | | | |
| Restricted | - | (823,635) | 8,483 | 562,435 | 82,918 | 2,068 | 54,046 | 712,216 | - | - | 598,531 |
| Committed | - | - | - | - | - | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - | - | - | - | - |
| Total fund balances | - | (823,635) | 8,483 | 562,435 | 82,918 | 2,068 | 54,046 | 712,216 | - | - | 598,531 |
| Total liabilities and fund balances | \$ - | \$ (4,867) | \$ 8,483 | \$ 568,898 | \$ 82,918 | \$ 2,068 | \$ 54,046 | \$ 712,216 | \$ - | \$ 1,212,521 | \$ 2,636,283 |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – NON-MAJOR FUNDS**

June 30, 2012

| | 10990 | 21700 | 29200 | 34400 | 47900 | 54500 | 78200 | 88100 | 89000 | 89200 | Total |
|--|----------------|------------------|--------------|----------------|------------|-------------|------------------|--------------|----------------|------------------|------------------|
| | ABE | College | College Goal | Post-Secondary | Faculty | Higher | Program | Legislative | | Capital | Total |
| | Instructional | Affordability | Sunday | Educational | Endowment | Education | Development | Endowment | ARRA | Projects | Non-Major |
| | Materials | Scholarship | Grant | Institution | | Performance | Enhancement | Scholarship | | FY2011 | Governmental |
| | | | | | | | | | | | Funds |
| Revenues | | | | | | | | | | | |
| Federal revenue | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 601,052 | \$ - | \$ 601,052 |
| Licenses, fees and permits | - | - | - | 199,250 | - | - | - | - | - | - | 199,250 |
| Interest on investments | - | 349 | 12 | - | 124 | 2 | 183 | 4,310 | - | - | 4,980 |
| Miscellaneous revenue | - | 840 | - | 2 | - | - | - | - | - | - | 842 |
| Other grant revenue | - | - | - | - | - | - | - | - | - | - | - |
| Total revenues | - | 1,189 | 12 | 199,252 | 124 | 2 | 183 | 4,310 | 601,052 | - | 806,124 |
| Expenditures | | | | | | | | | | | |
| Personal services and employee benefits | - | - | - | 127,221 | - | - | - | - | - | - | 127,221 |
| Contractual services | - | - | - | 3,992 | - | - | - | - | 500,000 | - | 503,992 |
| Other | 209,774 | 1,697,202 | - | 8,219 | - | - | 2,511,840 | - | 101,052 | 1,997,576 | 6,525,663 |
| Total expenditures | 209,774 | 1,697,202 | - | 139,432 | - | - | 2,511,840 | - | 601,052 | 1,997,576 | 7,156,876 |
| Excess (deficiency) of revenues over expenditures | (209,774) | (1,696,013) | 12 | 59,820 | 124 | 2 | (2,511,657) | 4,310 | - | (1,997,576) | (6,350,752) |
| Other financing sources (uses) | | | | | | | | | | | |
| State General Fund appropriation | - | - | - | - | - | - | 2,563,000 | - | - | - | 2,563,000 |
| Bond proceeds appropriations | - | - | - | - | - | - | - | - | - | 1,997,576 | 1,997,576 |
| Other financing sources | 209,774 | - | - | - | - | - | - | - | - | - | 209,774 |
| Other financing (uses) | - | - | - | - | - | - | - | - | - | - | - |
| Reversion to state general fund | - | - | - | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 209,774 | - | - | - | - | - | 2,563,000 | - | - | 1,997,576 | 4,770,350 |
| Excess (deficiency) of revenues over expenditures and other financing sources (uses) | - | (1,696,013) | 12 | 59,820 | 124 | 2 | 51,343 | 4,310 | - | - | (1,580,402) |
| Fund balance beginning | - | 872,378 | 8,471 | 502,615 | 82,794 | 2,066 | 2,703 | 707,906 | - | - | 2,178,933 |
| Fund balance, ending | \$ - | \$ (823,635) | \$ 8,483 | \$ 562,435 | \$ 82,918 | \$ 2,068 | \$ 54,046 | \$ 712,216 | \$ - | \$ - | \$ 598,531 |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
ABE INSTRUCTIONAL MATERIALS (FUND 10990)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-----------|--|
| Revenues | | | | |
| Other revenues | \$ - | \$ - | \$ - | \$ - |
| Miscellaneous revenue | - | - | - | - |
| Total budgeted revenues | - | - | - | - |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | 400,000 | 209,774 | 190,226 |
| Total budgeted expenditures | - | 400,000 | 209,774 | 190,226 |
| Excess (deficiency) of revenue over expenditures | - | 400,000 | (209,774) | 190,226 |
| Other financing sources (uses) | | | | |
| Other financing sources | 400,000 | 400,000 | 209,774 | (190,226) |
| Other financing (uses) | (400,000) | - | - | - |
| Net change in fund balance | \$ - | \$ 800,000 | \$ - | \$ - |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
COLLEGE AFFORDABILITY SCHOLARSHIP (FUND 21700)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-----------------------|--|
| Revenues | | | | |
| Interest on investments | \$ - | \$ - | \$ 349 | \$ 349 |
| Other revenue | - | - | 840 | 840 |
| Total budgeted revenues | - | - | 1,189 | 1,189 |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | 1,889,200 | 1,697,202 | 191,998 |
| Total budgeted expenditures | - | 1,889,200 | 1,697,202 | 191,998 |
| Excess (deficiency) of revenue over expenditures | - | (1,889,200) | (1,696,013) | 193,187 |
| Other financing sources (uses) | | | | |
| Other financing sources | - | 1,889,200 | - | (1,889,200) |
| Other financing (uses) | - | - | - | - |
| Net change in fund balance | \$ - | \$ - | \$ (1,696,013) | \$ (1,696,013) |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, 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, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|--------------|--|
| Revenues | | | | |
| Interest on investments | \$ - | \$ - | \$ 12 | \$ 12 |
| Other revenue | - | - | - | - |
| Total budgeted revenues | - | - | 12 | 12 |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Total budgeted expenditures | - | - | - | - |
| Excess (deficiency) of revenue over expenditures | - | - | 12 | 12 |
| Other financing sources (uses) | | | | |
| Other financing sources | - | - | - | - |
| Other financing (uses) | - | - | - | - |
| Net change in fund balance | \$ - | \$ - | \$ 12 | \$ 12 |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
POST-SECONDARY EDUCATIONAL INSTITUTION FUND (FUND 34400)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|------------------|--|
| Revenues | | | | |
| Other licenses | \$ 144,400 | \$ 151,620 | \$ 199,250 | \$ 47,630 |
| Other revenue | - | - | 2 | 2 |
| | <u>144,400</u> | <u>151,620</u> | <u>199,252</u> | <u>47,632</u> |
| Total budgeted revenues | 144,400 | 151,620 | 199,252 | 47,632 |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | 144,400 | 151,620 | | |
| Expenditures | | | | |
| Personal services and benefits | 139,400 | 139,400 | 127,221 | 12,179 |
| Contractual services | - | 3,992 | 3,992 | - |
| Other costs | 5,000 | 8,228 | 8,219 | 9 |
| | <u>144,400</u> | <u>151,620</u> | <u>139,432</u> | <u>12,188</u> |
| Total budgeted expenditures | 144,400 | 151,620 | 139,432 | 12,188 |
| Excess (deficiency) of revenue over expenditures | - | - | 59,820 | 35,444 |
| 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>\$ 59,820</u> | <u>\$ 35,444</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
FACULTY ENDOWMENT FUND (FUND 47900)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|---------------|--|
| Revenues | | | | |
| Interest on investments | \$ - | \$ - | \$ 124 | \$ 124 |
| Other revenue | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total budgeted revenues | - | - | 124 | 124 |
| Prior year cash budgeted | <hr/> | <hr/> | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total budgeted expenditures | - | - | - | - |
| Excess (deficiency) of revenue over expenditures | - | - | 124 | 124 |
| Other financing sources (uses) | | | | |
| Other financing sources | - | - | - | - |
| Other financing (uses) | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 124</u> | <u>\$ 124</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
HIGHER EDUCATION PERFORMANCE (FUND 54500)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------|--|
| Revenues | | | | |
| Interest on investments | \$ - | \$ - | \$ 2 | \$ 2 |
| Other revenue | - | - | - | - |
| Total budgeted revenues | - | - | 2 | 2 |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Total budgeted expenditures | - | - | - | - |
| Excess (deficiency) of revenue over expenditures | - | - | 2 | 2 |
| Other financing sources (uses) | | | | |
| Other financing sources | - | - | - | - |
| Other financing (uses) | - | - | - | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2</u> | <u>\$ 2</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
PROGRAM DEVELOPMENT ENHANCEMENT (FUND 78200)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|------------------|--|
| Revenues | | | | |
| Interest on investments | \$ - | \$ - | \$ 183 | \$ 183 |
| Other revenue | - | - | - | - |
| Total budgeted revenues | - | - | 183 | 183 |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | 2,563,000 | 2,511,840 | 51,160 |
| Total budgeted expenditures | - | 2,563,000 | 2,511,840 | 51,160 |
| Excess (deficiency) of revenue over expenditures | - | (2,563,000) | (2,511,657) | (50,977) |
| Other financing sources (uses) | | | | |
| State General Fund appropriation | 2,563,000 | 2,563,000 | 2,563,000 | - |
| Other financing (uses) | (2,563,000) | - | - | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 51,343</u> | <u>\$ (50,977)</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, 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, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-----------------|--|
| Revenues | | | | |
| Interest on investments | \$ - | \$ - | \$ 4,310 | \$ 4,310 |
| Other revenue | - | - | - | - |
| Total budgeted revenues | - | - | 4,310 | 4,310 |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | - | - | - |
| Total budgeted expenditures | - | - | - | - |
| Excess (deficiency) of revenue over expenditures | - | - | 4,310 | 4,310 |
| Other financing sources (uses) | | | | |
| Other financing sources | - | - | - | - |
| Other financing (uses) | - | - | - | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,310</u> | <u>\$ 4,310</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
AMERICAN RECOVERY AND REINVESTMENT ACT (FUND 89000)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------|--|
| Revenues | | | | |
| Federal sources | \$ - | \$ 500,000 | \$ 601,052 | \$ 101,052 |
| Miscellaneous revenue | - | - | - | - |
| Total budgeted revenues | - | 500,000 | 601,052 | 101,052 |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | 500,000 | | |
| Expenditures | | | | |
| Contractual services | - | 500,000 | 500,000 | - |
| Other costs | - | - | 101,052 | 101,052 |
| Total budgeted expenditures | - | 500,000 | 601,052 | 101,052 |
| Excess (deficiency) of revenue over expenditures | - | - | - | - |
| Other financing sources (uses) | | | | |
| Bond proceeds appropriations | - | - | - | - |
| Other financing sources | - | - | - | - |
| Other financing (uses) | - | - | - | - |
| Other financing (uses) | - | - | - | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – NON-MAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FY2011 (FUND 89200)**

For the Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------|--|
| Revenues | | | | |
| Interest on investments | \$ - | \$ - | \$ - | \$ - |
| Other revenue | - | - | - | - |
| Total budgeted revenues | - | - | - | - |
| Prior year cash budgeted | - | - | | |
| Total budgeted revenues | - | - | | |
| Expenditures | | | | |
| Contractual services | - | - | - | - |
| Other costs | - | - | 1,997,576 | (1,997,576) |
| Total budgeted expenditures | - | - | 1,997,576 | (1,997,576) |
| Excess (deficiency) of revenue over expenditures | - | - | (1,997,576) | (1,997,576) |
| Other financing sources (uses) | | | | |
| Bond proceeds appropriations | - | - | 1,997,576 | 1,997,576 |
| Other financing (uses) | - | - | - | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of this financial statement.

SUPPLEMENTARY INFORMATION

State of New Mexico
Higher Education Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

| 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 | V002A110032 | 84.002A | \$ 4,273,732 |
| Robert C. Byrd Honors Scholarship | P185A100033 | 84.185A | 99,750 |
| Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP) | P334S06009 | 84.334A | 3,941,031 |
| No Child Left Behind FY09 | S367B090028 | 84.367B | 174,057 |
| No Child Left Behind FY10 | S367B100028 | 84.367B | 437,141 |
| College Access Challenge Grant | P378A100052 | 84.378A | 562,755 |
| State Fiscal Stabilization - Government Services ARRA | S394A090032 | 84.397A | 421,051 |
| Veterans State Approving ARRA | V101 (223C) P-5040 | 84.xxx | <u>165,796</u> |
| Total U.S. Department of Education | | | 10,075,313 |
| U.S. Department of Health and Human Services: | | | |
| Direct Programs: | | | |
| Grants to States for Loan Repayment Program | H56HP00099-22-01 | 93.165 | <u>169,016</u> |
| Total U.S. Department of Health and Human Services | | | 169,016 |
| Department of Justice | | | |
| Direct Programs: | | | |
| John R Justice | 2011-RJ-BX-0039 | 16.816 | 75,100 |
| John R Justice | 2011-RJ-BX-0046 | 16.816 | <u>1,675</u> |
| Total U.S. Department of Justice | | | <u>76,775</u> |
| | | | <u><u>\$ 10,321,104</u></u> |
| The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. | | | |
| Federal expenditures | | | \$ 10,321,104 |
| Other | | | <u>199,961</u> |
| Total federal sources per the financial statements | | | <u><u>\$ 10,521,065</u></u> |

State of New Mexico
Higher Education Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2012

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

Note B – 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:

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Federal Amount Provided to Subrecipients</u> |
|--|------------------------|---|
| Adult Education - Basic Grants to States | 84.002A | \$ 4,273,732 |
| American Recovery and Reinvestment Act - Government Services | 84.397 | 421,051 |
| GEAR-UP | 83.334A | 3,941,031 |
| No Child Left Behind | 84.367B | <u>611,198</u> |
| Total provided to subrecipients | | <u>\$ 9,247,012</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 (the Department or HED), as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 14, 2012. The auditors' report was qualified for lack of audit evidence obtained in relation to the loans for service program due to the condition of the records and for lack of audit evidence in relation to the accuracy of the GFIP (cash) balances held by the Department at the State Treasurer of New Mexico. 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, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *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, 2010-12, 2012-01, and 2012-02.

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, 2010-09, 2010-13, 2010-15, 2010-17, 2010-18, and 2010-21.

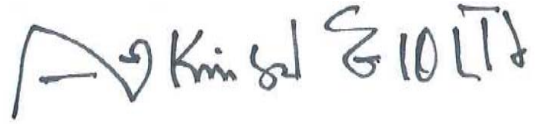
Compliance and Other Matters

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 2010-09, 2010-13, 2010-16, 2010-17, 2010-18, 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 2010-07, 2010-09, 2010-21, 2011-01, 2012-03, and 2012-04.

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 & 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 black ink, appearing to read "King & GIL". The signature is stylized and somewhat cursive.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 14, 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 (the Department or HED) 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, 2012. 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, and 2010-18 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, sub-recipient 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, 2012.

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.

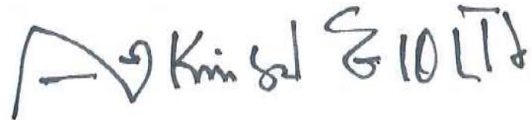
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance 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, 2010-12, 2012-01, and 2012-02 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, 2010-09, 2010-13, 2010-15, 2010-17, and 2010-18 to be significant deficiencies.

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

This report is intended solely for the information and use of the Department's management, others within the Department, the Office of the State Auditor, the Department of Finance & 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 black 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
December 14, 2012

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

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: | |
| College Access Challenge Grant | 84.378A |
| Adult Education – Basic Grants to States | 84.002A |
| GEAR UP | 84.334A |
| No Child Left Behind | 84.367 |
| State Fiscal Stabilization – Govt. Services ARRA | 84.397A |
| Dollar threshold used to distinguish between Type A and Type B programs | \$309,633 |
| Auditee qualified as a low –risk auditee? | No |

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

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)
- 2010-09 Budgetary Compliance (Significant Deficiency) (Compliance/Other Matter)
- 2010-12 Schedule of Expenditures of Federal Awards Preparation (Material Weakness)
(Compliance/Other Matter) (All Programs)
- 2010-13 Cash Management Controls and Compliance
(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)
- 2010-21 Untimely Reversion (Significant Deficiency) (Compliance/Other Matter)
- 2012-01 Lack of Cash Reconciliation Procedures (Material Weakness)
- 2012-02 Lack of General Ledger Reconciliation Procedures (Material Weakness)

Findings in Accordance with NMAC 2.2.2

- 2010-09 Budgetary Compliance (Significant Deficiency) (Compliance/Other Matter)
- 2010-21 Untimely Reversion (Significant Deficiency) (Compliance/Other Matter)
- 2011-01 Compliance with Procurement Code of New Mexico (Significant Deficiency)
(Compliance/Other Matter)
- 2012-03 Compliance with Related Party Disclosures (Compliance/Other Matter)
- 2012-04 Capital Asset Inventory Not Performed (Compliance)

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)

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED

| | |
|---------|--|
| 2010-05 | Capital Projects Accounting and Reporting (Material Weakness) |
| 2010-07 | Due Date of Audit Report (Significant Deficiency) |
| 2010-09 | Budgetary Compliance (Significant Deficiency) (Compliance/Other Matter) |
| 2010-12 | Schedule of Expenditures of Federal Awards Preparation (Material Weakness) (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) |
| 2010-21 | Untimely Reversion (Significant Deficiency) (Compliance/Other Matter) |
| 2012-01 | Lack of Cash Reconciliation Procedures (Material Weakness) |
| 2012-02 | Lack of General Ledger Reconciliation Procedures (Material Weakness) |

IV - STATUS OF PRIOR AUDIT FINDINGS

| | |
|---------|--|
| 2006-01 | General Ledger for Loan for Service programs was not being reconciled MODIFIED and REPEATED |
| 2010-01 | Entity-Level Controls over Financial Reporting -- MODIFIED and REPEATED |
| 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 -- RESOLVED |
| 2010-07 | Due Date of Audit Report -- MODIFIED and REPEATED |
| 2010-09 | Budgetary Compliance -- MODIFIED and REPEATED |
| 2010-10 | Violation of the Governmental Conduct Act -- RESOLVED |
| 2010-11 | Data Collection Form-Late filing -- RESOLVED |
| 2010-12 | Schedule of Expenditures of Federal Awards Preparation -- MODIFIED and REPEATED |
| 2010-13 | Cash Management Controls and Compliance -- MODIFIED and REPEATED |
| 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 -- RESOLVED |
| 2010-20 | Eligibility -- RESOLVED |
| 2010-21 | Untimely Reversion -- MODIFIED and REPEATED |
| 2011-01 | Compliance with Procurement Code of New Mexico -- MODIFIED and REPEATED |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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

Condition

The Department's Financial Aid Division (the 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. The Department has made significant improvements in the review of all existing loans and reconciliation to the balances contained in ECSI. However the beginning balances of loans and amount of loans receivable and corresponding loan data for all loans could not be verified sufficiently to permit an unqualified opinion to be rendered for the last three years.

Criteria

§6-5-1 and §6-5-2, NMSA 1978 requires State agencies, through the model accounting practices, 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 based on the reconciliations that had occurred as of June 30, 2012.

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 reports on a regular basis. Significant efforts continue to be directed toward the reconciliation of all outstanding loans and additional reconciliation and data is necessary to provide the Department with a clear understanding of the amount of loans receivable and enforceable collections of outstanding loans.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Recommendation

We recommend that the Department continue to reconcile each loan, and the current status, 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. All new loans should be recorded and reconciled without delay to prevent new reconciliation issues on a go forward basis.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. A Financial Aid Director remained vacant up until November 19, 2012. During this time period the Interim Financial Aid Director has worked with the vendor for support for the ECSI database. The vendor support has allotted to implementation of functionality in the ECSI database for tracking of outstanding loans. Progressive improvements continue to be a top priority to ensure full functionality of the ECSI database.

The ASD Director/CFO resigned from the HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED continues to work toward reconciling efforts with the Financial Aid Division to ensure accountability of balances within the SHARE system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

**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 FY12. Financial accounting and reporting functions showed increased centralization and progress toward implemented controls during FY12, but were not in place for the entire fiscal year and continue to require emphasis and Department effort toward coordination between business processes. All general ledger balances required adjustment for the FY12 audit.

Criteria

A strong internal control structure is required by the NM Department of Finance & 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.

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

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. 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 throughout the year prevented the Department from accurate financial reporting and recordkeeping.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978. HED's ASD unit is currently in the process of establishing controls to ensure that ASD is the central repository of all financial documents. Financial documents are to be maintained by the Accountant Auditor-A and Educational Administrative – O functions. To date the ASD unit has received copies of all payment vouchers for the following expenditures Operating, Capital Projects, Adult Basic Education and GEAR UP. A collaborative effort of all Division's HED financial coordinators is also needed. At this juncture a request on December 3, 2012 has been made of the Financial Aid Division to provide copies of all FY13 financial documents to the ASD to finalize the centralization process. This request includes copies of all contract and voucher files.

**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. Due to significant turnover within the Department and staffing vacancies noted throughout the year, various members of the ASD and Administrative staff prepare and take cash collections to the bank, as well as enter the deposits into SHARE.
- For 6 of 13 tested items, collections received subsequent to year-end were not accrued to record the receipts in the proper period, for a total FY12 amount of \$9,660,945.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

**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.

U.S. GAAP requires the accrual of foreseeable collections related to current year revenue or other rights received subsequent to year-end.

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.

The balance of accounts receivable was materially understated at year-end.

Cause

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

There is currently no formal process in place for the review of items related to current year transactions expected to be collected in periods subsequent to year-end.

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 the proper accounting period.

The Department should have an individual who does not have access to the actual cash (or check) received and 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Recommendation – Continued

In addition, we recommend that the Department implement a process for monitoring all transaction activity subsequent to June 30 of each year to ensure that cutoff procedures are performed and recorded.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

HED's ASD unit Accountant Auditor-A drafted deposit procedures which requires HED's receptionist to fill out a check log of all incoming checks received via US mail. HED's receptionist is to then notify both the grant program and ASD that checks are received via US mail. The Program is then responsible to take the check to the ASD with adequate backup documentation within 24 hours of the receipt and logging of the check. The ASD Accountant Auditor-A is responsible for endorsing the check and completing the bank deposit slip. The individual within ASD assigned to complete deliveries to the DFA is also tasked with taking the deposit to HED's banking institution, Wells Fargo. Once the deposit receipt is retained from Wells Fargo, the Accountant Auditor-A then performs the entry of direct journal voucher to recognize the receipt of revenue. A collaborative effort of all Division's HED financial coordinators is also needed to ensure that all deposits, when notified, are delivered to ASD timely within 24 hours of receipt.

During FY12, no reconciliation of any accounts occurred, thus no accruals for revenue occurred. To move forward, the current ASD/CFO and Staff Manager are working toward catching up reconciliations of FY13 activity and will also assess the need of accrual entries for FY13 related to accounts receivable per GAAP.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

**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:

- One or more people were responsible for, or had access to, the handling, recording, and distribution of cash disbursements. Segregation of duties was not implemented to the effect available.
- For 7 of 55 disbursements made subsequent to year-end, no accrual was made to record items that should have been recorded in the proper period of FY12, for a total under accrued amount of \$1,349,520.

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.

U.S. GAAP requires the accrual of foreseeable disbursements related to current year obligations subsequent to year-end.

Effect

There was an increased possibility of theft and an increased risk of misstatement due to fraud or error. The balance of accounts payable was understated at year-end.

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.

There is currently no formal process in place for the review of items related to current year transactions expected to be disbursed in periods subsequent to year-end.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Recommendation

We recommend that Management continue their efforts to 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 by 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.

In addition, we recommend that the Department implement a process for monitoring all transaction activity subsequent to June 30 of each year to ensure that cutoff procedures are performed and recorded.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

HED's ASD unit Accountant Auditor-A drafted up deposit procedures which requires HED's receptionist to fill out a check log of all incoming checks received via US mail. HED's receptionist is to then notify both the grant program and ASD that checks are received via US mail. The Program is then responsible to take the check to the ASD with adequate backup documentation within 24 hours of the receipt and logging of the check. The ASD Accountant Auditor-A is responsible for endorsing the check and completing the bank deposit slip. The individual within ASD assigned to complete deliveries to the DFA is also tasked with taking the deposit to HED's banking institution, Wells Fargo. Once the deposit receipt is retained from Wells Fargo, the Accountant Auditor-A then performs the entry of direct journal voucher to recognize the receipt of revenue. A collaborative effort of all Division's HED financial coordinators is also needed to ensure that all deposits, when notified, are delivered to ASD timely within 24 hours of receipt.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Responsible Official's Views – Continued

During FY12, no reconciliation of any accounts occurred, thus no accruals for revenue occurred. To move forward, the current ASD/CFO and Staff Manager are working toward catching up reconciliations of FY13 activity and will also assess the need of accrual entries for FY13 related to accounts receivable per GAAP.

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

Condition

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

- The Department does not have procedures in place to record or reconcile Capital Project revenues and expenditures in the period in which the expenditures are incurred.
- Capital projects activity in Fund 64400 was not fully reconciled for FY12, resulting in a net overstatement of expenditures in the amount of \$4,401,703 (7 projects), and a net overstatement of revenues in the amount of \$3,871,718 (8 projects).
- Capital projects activity in Fund 89200 was not fully reconciled for FY12, resulting in a net understatement of expenditures in the amount of \$218,549 (1 project), and a net understatement of revenues in the amount of \$1,055,769 (1 project).

Criteria

The project funds expended in FY12 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 the 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. A matching revenue accrual should be concurrently recorded for documented expenses as long as all eligibility requirements are met.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Effect

The capital projects were not properly tracked or reported by the Department.

Cause

The Department is not following prescribed accounting methodology to properly record accrued revenue when a draw request is approved for expenditure.

Recommendation

The Department should continue its efforts to develop and implement a system of tracking and reconciling capital projects to facilitate financial reporting objectives. The Department should also implement a structure of accounting practices for personnel to follow to ensure that all required accounting for capital projects is followed. Standard entries should be developed for capital projects to record the expenditures for incurred project costs, and the associated accrued revenue to keep the project balances reconciled for the related periods.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

During FY12, no reconciliation of any accounts occurred, thus no accruals for capital projects occurred. To move forward, the current ASD/CFO and Staff Manager are working toward catching up reconciliations of FY13 activity and will also assess the need of accrual entries for FY13 related to accounts receivable per GAAP. HED hired a contractor to complete the FY07 through FY09 audits in which entries to capital projects occurred. In order to proceed with reconciliations, a request has been made from the audit firm on November 30, 2012 of trial balances in order for the ASD/CFO and Staff Manager to continue to make progress in catching up reconciliation of capital projects.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Condition

The June 30, 2012 audit report was turned into the State Auditor by the statutory deadline, but needed certain corrections. A corrected copy was filed and accepted with the State Auditor on December 28, 2012, 11 days after the statutory deadline.

Criteria

According to State Audit Rule 2.2.2 9A, the audited financial statements are due by December 17, 2012 for FY12.

Effect

The Department made efforts for compliance with the due date and worked with its external auditor to assure that a draft was provided to the SAO on December 17, 2012. On December 21, 2012, comments from the SAO were received, identifying a rejection notice and request for a finding for the late audit.

Cause

Auditors did not complete all necessary reviews by the deadline.

Recommendation

We recommend that the Department give priority to continuous staffing of the financial personnel positions during the coming year as much as possible. Reconciliation of accounts at the beginning of the audit will facilitate the timely completion of the audit. The Department may wish to contract for financial statement preparation at the beginning of the next audit.

Responsible Official's View

On December 17, 2012, HED made all attempts to assure timely information was provided to its external auditors within reason to facilitate the copy of the draft financial statements delivered to the SAO by the required due date. The initial contract prepared by HED did not incorporate preparation of the financial statements. Due to change in personnel of the ASD Director/CFO, HED completed a contract amendment to include preparation of the financial statements. The contract was processed through the SAO and the DFA in early December.

During the close of the audit there was a change in the Senior Manager assigned to HED. In the future, HED will work on timely reconciliations, to include minimal contract amendments. Collaboration with the audit firm is also needed to assure that proper senior auditing staff is in place for necessary reviews.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Condition

The Department originally included expenditures on the Schedule of Expenditures of Federal Awards (SEFA) that were not incurred during FY12, resulting in an overstated amount of \$397,516. In addition, expenditures for two major programs were not reported on the SEFA, resulting in an understated amount of \$421,051.

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 required adjustment for two programs that had been improperly included or excluded. Not correctly indentifying Federal programs may compromise the required administration of the programs.

Cause

The Department did not reconcile the SEFA to amounts reported in the SHARE system, and does not have a formal process in place for the reconciliation of amounts reported on the SEFA.

Questioned Costs

None.

Recommendation

We recommend the SEFA reporting beginning and ending balances, receipts and expenditures be reconciled quarterly to SHARE, are to associated accounts receivable, accounts payable, and reported to management. The CFO should approve the schedule on a quarterly basis. All Federal reports submitted as part of the program administration should be to the SEFA.

We further 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).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

**2010-12 Schedule of Expenditures of Federal Awards Preparation (Modified and Repeated)
(Material Weakness) (Compliance/Other Matters) (All Programs) – Continued**

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from the HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

During FY12, the Educational Administrative-O is tasked with all draw down and filing of federal reports. During the fiscal year no reconciliation of accounts within SHARE occurred by the ASD staff. The ASD/CFO and Staff Manager are working toward beginning reconciliations of all FY13 expenditures and will be reviewing all accrual activity for FY 2013. This will require ensuring that all activity in the SHARE accounting system for expenditures is properly recorded on the SEFA.

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

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)
CFDA Number: 84.334A
Period: 7/1/2011 – 6/30/2012**

**Funding Agency: U.S. Department of Education
Title: No Child Left Behind (NCLB)
CFDA Number: 84.367
Period: 7/1/2011 – 6/30/2012**

**Funding Agency: U.S. Department of Education
Title: Adult Basic Education (ABE)
CFDA Number: 84.002
Period: 7/1/2011 – 6/30/2012**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

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 NCLB, 1 GEAR UP).

The Department did not submit any drawdown requests for the ABE program for FY12 expenditures.

Criteria

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.

The U. S. Department of the Treasury regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA) require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs.

Effect

Department personnel did not obtain proper authorization for transactions that require management approval.

Department personnel did not perform adequate cash management processes by periodic drawdown of Federal grant money as expenses were made against funding. This causes an understatement of grant expenditures in financial reporting.

Cash flow of the Department is impacted for drawdowns not made when eligible.

Cause

Funds were requested by Department personnel, without acknowledging Federal or state regulations regarding internal controls and processes of proper cash management.

Questioned Costs

None.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Recommendation

We recommend the Department obtain proper authority for authorizations, and approval procedures should be established and followed. The Department should implement a process for effective cash management to ensure that funding is being monitored and expenditures are drawn down in a timely manner to accurately report the grant funding status.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012.

At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978. During FY12, the Educational Administrative-O is tasked with all draw down. The Educational Administrative-O maintains copy of general ledger activity to support the request for draw down from the US Dept. of Education G-5 system. The Staff Manager and ASD Director/CFO will need to review approval process of draw down with the Educational Administrative-O position for all FY13 activity.

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

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)
CFDA Number: 84.334A
Period: 7/1/2011 – 6/30/2012**

**Funding Agency: U.S. Department of Education
Title: No Child Left Behind (NCLB)
CFDA Number: 84.367
Period: 7/1/2011 – 6/30/2012**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Funding Agency: U.S. Department of Education

Title: Adult Basic Education (ABE)

CFDA Number: 84.002

Period: 7/1/2011 – 6/30/2012

Condition

During our testing of disbursements for allowable costs, we noted the following exceptions:

- Semi-annual time certifications were not made for employees who charge 100% of their time to a Federal grant (GEAR UP, ABE). We tested 30 instances where individuals did not have the required documentation.
- Payroll expense for one employee was charged to the incorrect period (GEAR UP).
- The Department requested and received reimbursement for an inaccurate calculation of payroll tax and state withholding portion of tax (ABE).
- 3 voucher packets selected for testwork did not contain authorized approval for disbursement (GEAR UP).
- 2 requests for reimbursement from the sub-grantee exceeded the amount of support provided with request (NCLB).

Criteria

Circular A-133 requires effective internal controls over all transactions in relation to the administration of Federal funds and effective compliance including documentation. The departures noted above are compliance, control, and documentation exceptions.

Effect

Funds were expended for unallowable costs of the program. In addition, the Department did not ensure the proper control over Federal funds by proper approval and/or certification of all disbursements.

Cause

The Department was not aware of specific provisions of the grant requirements and unallowable costs, as stipulated by OMB Circular A-133. Staffing may have been inadequate to ensure correct procedures. Appropriate monitoring of transactions was not effective.

Questioned Costs

Unknown. Information not available.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Recommendation

We recommend the Department develop and implement procedures to accurately monitor, review, and approve all expenditures of Federal grant funds.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

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

Funding Agency: U.S. Department of Education

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)

CFDA Number: 84.334A

Period 7/1/2011 – 6/30/2012

Condition

We noted 2 of 2 professional services contracts charged to the GEAR UP program in FY12, 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

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

The Department did not maintain documentation to show their review of the Excluded Parties Listing System, prior to contracting with selected vendors.

Questioned Costs

None.

Recommendation

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

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012.

On September 17, 2012, the Educational Administrative-O or (Federal Grants Analyst) published procedures for checking vendors against the "Excluded Parties List" to all Higher Education Employees. The steps require staff to check the status of all parties seeking to do business with the Higher Education Department on the General Services Administration System for Award Management (SAM) website.

A collaborative effort of all Division's HED financial coordinators is also needed. At this juncture a request on December 3, 2012 has been made of the Financial Aid Division to provide copies of all FY 2013 financial documents to the ASD to finalize the centralization process. This request includes copies of all contract and voucher files.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

**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)
CFDA Number: 84.334A
Period 7/1/2011 – 6/30/2012**

**Funding Agency: U.S. Department of Education
Title: College Access Challenge Grant
CFDA Number: 84.378
Period 7/1/2011 – 6/30/2012**

**Funding Agency: U.S. Department of Education
Title: ARRA State Fiscal Stabilization Act (SFSF)
CFDA Number: 84.394A and 84.397
Period 7/1/2011 – 6/30/2012**

Condition

During our testing of reporting requirements for the GEAR UP Program, we were unable to obtain evidence to determine whether 2 of the 3 required reports was reviewed and approved by a member of the Department who did not prepare the report.

During our testing of reporting requirements with respect to the CACG Program, we identified that the annual report required was submitted with incorrect data and payroll expenditure data.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

**2010-17 Federal Grant Reporting (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) §80.20, 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 is an increased possibility the program will not continue to receive funding if compliance requirements are not met.

Cause

The Department was not able to provide evidence of timely submission of reports due to decentralized accounting records. The Department does not have a formal process in place for the effective review and approval of data submitted in required reports.

Questioned Costs

\$6,577

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. The Department should continue their efforts to integrate and maintain centralized accounting records to ensure that all pertinent grant information is safeguarded and accessible.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978. All reports will need to be signed to ensure before filing with the US Department of Education, in FY13 the ASD Director/CFO and Staff Manager will be working with Educational Administrative Assistant-O for assuring proper approval of HED Secretary is obtained.

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

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)
CFDA Number: 84.334A
Period: 7/1/2011 – 6/30/2012**

**Funding Agency: U.S. Department of Education
Title: No Child Left Behind (NCLB)
CFDA Number: 84.367
Period: 7/1/2011 – 6/30/2012**

**Funding Agency: U.S. Department of Education
Title: Adult Basic Education (ABE)
CFDA Number: 84.002
Period: 7/1/2011 – 6/30/2012**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

Condition

The Department failed to perform adequate sub-recipient monitoring of their sub-grantees during FY12. There is no evidence of site visits, additional monitoring procedures, or sub-grant award communications to any Institutions of Higher Education (IHE) to monitor pass-through Federal funds.

The Department failed to follow sub-recipient monitoring procedures that require the granting agency to obtain DUNS numbers from all sub-grantees, and provide data required in award letters to sub-grantees (i.e. CFDA number, requirements imposed by laws and regulations, and provisions of the contract or grant agreement). 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 NCLB Program, we identified 2 reimbursement requests by a sub-grantee in which the amount requested did not agree to the supporting documentation of expenditures. This item is also detailed in 2010-15 as an allowable cost finding.

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. The FSA Handbook for State Grant Programs states that it is the State Agency's responsibility to select and approve recipients. OMB Circular A-133 requires pass-through entities to implement effective controls over sub-recipient monitoring through grant award letters and monitoring procedures to ensure that sub-recipients have all pertinent criteria about their award of pass-through funds. In addition, the pass-through entity is required to obtain external audits of sub-grantees, 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, therefore a significant risk exists regarding the sub-recipients of the Department not being in compliance with Federal Regulations. This can prevent the program from receiving funding in future periods. Financial aid eligibility is determined by each IHE, and non-compliance could potentially be the responsibility of the Department.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

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

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. Specific internal controls for monitoring subrecipients were not comprehensive.

Questioned Costs

Unknown.

Recommendation

We recommend that the Department implement a formal process to effectively monitor 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.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. At such time the ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012.

HED has provided copies to all staff of requirements of Circular A-133 on November 9, 2012. HED has hired on the Institutional Finance Manager on October 27, 2012. The Institutional Finance Unit is responsible for follow up of all oversight reports from all institutions. HED is striving to hire an Internal Auditor position to assist with requirement to ensure oversight reports are maintained. As of December 3, 2012, the State Personnel Office is advertising the position to fill an internal auditor. HED's ASD will need to work with the programs to ensure proper compliance and monitoring. The ASD will need to continue to work with the programs to ensure proper compliance and monitoring.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

2012-01 Lack of Cash Reconciliation Procedures (Material Weakness)

Condition

The Department did not have cash reconciliation procedures in place to exercise effective oversight and monitoring of the cash balance for the year ended June 30, 2012. General ledger balances, including cash were not reconciled during the year. Certain cash balances are in an overdraft condition at June 30, 2012. Certain budget overages occurred during the year.

Criteria

Model accounting practices issued by DFA FIN 2.1 through FIN 2.17 lists cash management policies and procedures that apply to the agency level to effectively manage the State's resources.

Effect

The lack of reconciliation has resulted in a cash balance that is overdrawn. Uncertainties concerning the Department share of the General Fund Investment Pool cannot be currently resolved at the Department level.

Cause

The Department experienced turnover in key management positions during FY12, and sufficient controls over the cash monitoring process were not implemented for effective reconciliation to occur.

Recommendation

We recommend the Department implement cash controls that validate all deposit and disbursement transactions made to share and track current estimated balances. We recommend the Department exercise budgetary control and that the Department go through a quarterly closing of its trial balance to establish control over transactions and account balances.

Responsible Official's Views

HED accepts the finding; however during FY12 the ASD was operating under an Interim ASD Director. On January 3, 2012 an ASD Director/CFO was hired. However on September 4, 2012, the ASD Director/CFO resigned to pursue another job opportunity. During this time there was no reconciliation of any asset or liability accounts. Thus no verification of the inflows and outflows of cash transactions occurred that monitored HED's general ledger activity in SHARE. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978. To mitigate this, HED is working toward instituting a "Proof of Cash" reconciliation to monitor inflows and outflows of cash.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

2012-01 Lack of Cash Reconciliation Procedures (Material Weakness) – Continued

Responsible Official's Views – Continued

In June 2012, HED was also briefed by the DFA of the issues surrounding the non-reconciliation at the fund level of all agencies with activity affecting the State General Fund Investment Pool (GFIP). Since July of 2006, reconciliation measures of the GFIP have not occurred since the inception of Statewide Human resources, Accounting, and management Reporting system (SHARE). The reconciliation process requires collaboration between HED, State Treasurer's Office (STO), and the DFA. Currently, the DFA under the direction of the State Comptroller is taking aggressive action to resolve the issues and has commenced a Cash Management Remediation Projection in collaboration with an independent enterprise resource planning expert. The Remediation Projection is scheduled to make changes to the state's current SHARE configuration, cash accounting policies and procedures. As HED progresses with internal monitoring of inflows and outflows on the General Ledger, collaboration with the DFA and STO will also need to occur to meet the deadlines imposed by both oversight agencies.

2012-02 Lack of General Ledger Reconciliation Procedures (Material Weakness)

Condition

The Department did not have adequate controls in place to exercise effective oversight and procedures for reconciling the general ledger for the year ended June 30, 2012. The Department was understaffed and experienced turnover in financial staff positions which resulted in insufficient time spent in reconciliation and control.

Criteria

Model Accounting Practices FIN 3.8 and FIN 16 provide required procedures for year-end closings involving the general ledger and validation and tracking procedures of ledger transactions during the year to prevent error.

Effect

The lack of reconciliation affects balances in funds and accounts reported in the financial statements of the Department. This in turn impacted the effective operation of key transaction functions, including cash control, budget control, and disbursement control. Stakeholders of HED do not have the adequate information to assess the financial condition of HED.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

2012-02 Lack of General Ledger Reconciliation Procedures (Material Weakness) – Continued

Cause

The Department has been playing catch-up with financial reporting and the implementation of needed control procedures all the while experiencing understaffing and turnover of financial staff. The general ledger was not reconciled with the start of the annual audit.

Recommendation

We recommend all the best efforts be continued to consistently retain staff, the financial positions of the agency, and that priority be given to validating cash transactions and monitoring cash balances and to exercise effective budgetary control.

Responsible Official's Views

HED accepts the finding; however during FY12 the ASD was operating under an Interim ASD Director. On January 3, 2012 an ASD Director/CFO was hired. However on September 4, 2012, the ASD Director/CFO resigned to pursue another job opportunity. During this time there was no immediate measures put in place to ascertain asset and liability amounts presented from 2007 forward were reconciled. Transaction activity that occurred in 2007 has in most cases been carried forward and compounding with FY12 current activity. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978. The necessary steps to address this are to begin an assurance process of reviewing all roll forward inflows and outflows of cash transaction presented on HED's general ledger. HED's is striving to ensure the hiring individuals who have the suitable skill, knowledge, and experience to oversee and assist in financial transactions. In FY13, HED hired a Staff Manager on September 8, 2012 and replaced the ASD Director/CFO on November 28, 2012.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

Finding in Accordance with NMAC 2.2.2

**2010-09 Budgetary Compliance (Modified and Repeated) (Significant Deficiency)
(Compliance/Other Matter)**

Condition

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

- General Fund (SHARE Fund 91000)
 - Contractual Services - \$293,319
- Student Financial Aid Fund (SHARE Fund 21600)
 - Other financing uses - \$29,950
- Capital Projects Fund (SHARE Fund 64400)
 - Other Costs –\$16,401,574
- Capital Projects Fund 2011 (SHARE Fund 89200)
 - Other Costs - \$1,997,576
- ARRA Fund (SHARE Fund 89000)
 - Other Costs - \$101,052
- College Affordability Scholarship (SHARE Fund 21700)
 - The Department exceeded its available fund balance.

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. All state agencies are subject to the provisions of NMSA 1978, Chapter 6 Public Finances, Article 3 State Budgets.

Effect

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.

Cause

The budgetary controls applicable to the expenditure cycle were not implemented at the Department. The Department does not have adequate cash and general ledger controls to monitor cash balances and ledger balances including account coding. There was under staffing and turnover in the financial staff did not allow effective actions to occur in relation to the budgetary and disbursement system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

Finding in Accordance with NMAC 2.2.2 – Continued

**2010-09 Budgetary Compliance (Modified and Repeated) (Significant Deficiency)
(Compliance/Other Matter) – Continued**

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.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

The FY13 operating budget was submitted on May 1, 2012, thus the current ASD Director/CFO along with the Staff Manager will need to work to ensure that compliance of budget has occurred.

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

Condition

The Department did not properly revert appropriations in excess of expenditures timely for several funds in accordance with state statute for several prior years, in addition to the current fiscal year. At June 30, 2012, the Department's liabilities included a total of \$6,300,510 in 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".

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

**CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS/
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – CONTINUED**

Finding in Accordance with NMAC 2.2.2 – Continued

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

Effect

The State General Fund and the DFA did not have accurate reversion information from the Department. This lack of information could affect budgeting in subsequent years, as the Legislative Finance Committee cannot ascertain a clear understanding of the financial position of the Department without proper reversion data. Cash flow of the State General Fund is impacted.

Cause

The Department did not calculate the anticipated reversion in order to comply with reversion deadlines.

Recommendation

We recommend the Department make efforts to close their books and make timely reversions by the specified due date of 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.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

During FY12, no reconciliation of any accounts occurred and no entries were established for accrual set up to the State General Fund. As a result, the current ASD/Director CFO and the Staff Manager will need to work to reviewing all funds with reversion requirements to the State General Fund for FY13. An assessment of fund balance amounts will need to occur along with available cash to ensure that sufficient balances are maintained to support such reversions to the State General Fund. Review of all past activity in fund balance beginning with FY07 will need to be assessed. The current ASD/CFO and Staff Manager will be working toward meeting the required DFA deadline for all reversions.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS – CONTINUED

Finding in Accordance with NMAC 2.2.2 – Continued

**2011-01 Compliance with Procurement Code of New Mexico (Modified and Repeated)
(Significant Deficiency) (Compliance/Other Matter)**

Condition

While performing substantive testwork over expenditures of the Department, we noted three procurements out of 46 tested for which a PO was not processed before services were rendered.

Criteria

Procurement Code of New Mexico (13-1-28 through 13-1-199 NMSA 1978).

Effect

There is an increased risk of misstatement due to fraud or error, as these purchases were not approved through prescribed procedures designed to ensure valid purchases.

Cause

The Department did not ensure full compliance prior to entering into agreements with identified vendors. Procurements procedures were not uniformly followed indicating the controls were not effective in every case.

Recommendation

We recommend that the individual initiating purchases for services consult the Procurement Code of New Mexico (13-1-28 NMSA 1978) to ensure compliance before processing. Such individual must ensure that there is proper authorization documented by the requesting individual's supervisor or Division Director, in addition to the maintenance of all required documentation. An approval process must be in place for all procurements including processing purchase orders.

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS – CONTINUED

Finding in Accordance with NMAC 2.2.2 – Continued

**2011-01 Compliance with Procurement Code of New Mexico (Modified and Repeated)
(Significant Deficiency) (Compliance/Other Matter) – Continued**

Responsible Official's Views – Continued

During FY12, different divisions maintained contract files, as a result during the fiscal year a request has been made to obtain all files for centralization in the ASD unit. In FY13, HED will need to develop a contract policy and procedure to ensure that all supporting documentation is retained to ensure compliance with State of New Mexico Procurement code for all expenditures above \$10,000.

2012-03 Compliance with Related Party Disclosures (Compliance/Other Matter)

Condition

The Department entered into a professional services contract with a company in which a key employee, the Financial Aid Director, was Treasurer of the Board of this same entity during a portion of FY12.

Criteria

Related party relationships increase the possibility that inappropriate transactions may occur due to the absence of free market effects, including the perception of conflict of interest. Personal and organizational benefits are easier to gain where related party relationships exist.

Effect

The administration of the Department, at the time in which the employee became a member of the Board of Directors in 2010 for an organization receiving Department funding, violated statute regarding contracts with related parties.

Cause

The Department administration may not have been aware of the relationship between the employee and their involvement on the Board of Directors of a contracted entity.

Recommendation

We recommend the Department review all contracts for compliance with State law and Federal compliance, if applicable, prior to executing. Governmental Conduct Act Section 10-16-3 to 10-16-5 NMSA 1978 requires all employees in government positions to be a public trust and to not obtain personal benefits. Other statutes may be in effect.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS – CONTINUED

Finding in Accordance with NMAC 2.2.2 – Continued

2012-03 Compliance with Related Party Disclosures (Compliance/Other Matter) – Continued

Responsible Official's Views

HED accepts the finding; however the FY11 audit was completed on April 27, 2012. The date of April 27, 2012, was the end of the 10th month for FY12, thus the corrective action documented in the FY11 audit report is still in effect. These employees are no longer employed. On April 25, 2011, Governor Susana Martinez issued a Code of Conduct applicable to all employees within the executive service. This Code of Conduct articulates the expectations of state's officers and employees to maintain an individual commitment to the highest standards of conduct. Employees are required at the beginning of each calendar year (January) to acknowledge their receipt, review and understanding of the Code of Conduct.

HED has seen effects in personnel turnover. The ASD Director/CFO resigned from HED on September 4, 2012. During this time period, HED continued with a vacant ASD Director until November 26, 2012. To mitigate vacancies in HED's ASD Unit, the Staff Manager was hired on September 8, 2012. At this juncture HED is striving to ensure that the roles and responsibilities of the Chief Financial Officer is maintained per state statute 2.20.5.8 NMSA 1978.

2012-04 Capital Asset Inventory Not Performed (Compliance)

Condition

The Department did not perform an inventory of capital assets for FY12 tracking and reporting.

Criteria

Per 12-6-10 NMSA 1978, the governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. This inventory shall include all movable chattels and equipment procured through the capital program fund under Section 15-3B-16 NMSA 1978, which are assigned to the agency designated by the director of the property control division of the general services department as the user agency. The inventory shall list the chattels and equipment and the date and cost of acquisition. No agency shall be required to list any item costing five thousand dollars (\$5,000) or less. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2012

CURRENT YEAR FINDINGS PERTAINING TO THE FINANCIAL STATEMENTS – CONTINUED

Finding in Accordance with NMAC 2.2.2 – Continued

2012-04 Capital Asset Inventory Not Performed (Compliance) – Continued

Effect

The proper value of capital assets held by the Department may be misstated. Proper stewardship for capital assets may be impacted.

Cause

Inadvertently the Department did not perform the inventory procedure.

Recommendation

The next physical inventory should be scheduled in advance of June 30, 2013 and adequate resources assigned to the court. The benefits of the court will be fully realized if necessary adjustments to the inventory listing are made on a timely basis to accurately account for capital assets in the possession of HED.

We recommend that the Department create and implement formal policies and procedures for the periodic inventory of capital assets.

Responsible Official's Views

HED accepts the finding; however during the week of July 23, 2012 a walkthrough of capital assets was completed with the ASD Director/CFO and Chief Information Officer. However, the ASD Director/CFO did not retain a signed certification form pursuant to 12-6-10 NMSA 1978. During FY12 the ASD was operating under an Interim ASD Director. On January 3, 2012, an ASD Director/CFO was hired. However on September 4, 2012 the ASD Director/CFO resigned to pursue another job opportunity. HED will work to maintain compliance pursuant to 12-6-10 NMSA 1978 regarding correct capitalization of equipment, as well as maintain certification of capital assets.

State of New Mexico
Higher Education Department

PREPARATION OF FINANCIAL STATEMENTS AND EXIT CONFERENCE

Year Ended June 30, 2012

PREPARATION OF FINANCIAL STATEMENTS

The audited financial statements were prepared by Atkinson & Co., Ltd., with assistance from Department management.

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 prepared the Management Discussion and Analysis.

EXIT CONFERENCE

An exit conference was held on December 7, 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

Jessica Lucero, Administrative Services Director (ASD)/Chief Financial Officer

Kevin Romero, Staff Manager

Vera Lyons, Accountant/Auditor

Dyanne Salazar, Federal Fiscal Analyst

Heather Romero, Financial Aid Coordinator

Lara Barela, Financial Aid Coordinator

Atkinson & Co., Ltd.

Marty Mathisen, CPA, CGFM, Audit Director

James Hartogensis, CPA, CGFM, Audit Senior Manager

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