



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

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

June 30, 2013

atkinson

PRECISE. PERSONAL. PROACTIVE.

TABLE OF CONTENTS

CONTENTS	i-iii
OFFICIAL ROSTER	iv
INDEPENDENT AUDITORS' REPORT	1-4
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	5-14
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	15
STATEMENT OF ACTIVITIES.....	16
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS.....	17
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION – GOVERNMENTAL FUNDS.....	18
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS.....	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS.....	20
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL:	
MAJOR GOVERNMENTAL FUNDS	
GENERAL FUND (91000).....	21
FINANCIAL AID PROGRAMS (FUND 21600).....	22
LOTTERY TUITION FUND (FUND 63700).....	23
STATEMENT OF FIDUCIARY NET POSITION.....	24
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION.....	25
NOTES TO FINANCIAL STATEMENTS.....	26-52

TABLE OF CONTENTS – CONTINUED

SUPPLEMENTARY INFORMATION

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS.....	53-57
--	-------

NON-MAJOR GOVERNMENTAL FUNDS

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS.....	58-59
---	-------

COMBINING BALANCE SHEET – NON-MAJOR FUNDS	60
---	----

COMBINING BALANCE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR FUNDS.....	61
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL

NON-MAJOR GOVERNMENTAL FUNDS

ABE INSTRUCTIONAL MATERIALS (FUND 10990).....	62
---	----

COLLEGE AFFORDABILITY SCHOLARSHIP (FUND 21700).....	63
---	----

COLLEGE GOAL SUNDAY GRANT (FUND 29200).....	64
---	----

POST-SECONDARY EDUCATIONAL INSTITUTION FUND (FUND 34400).....	65
---	----

FACULTY ENDOWMENT FUND (FUND 47900).....	66
--	----

HIGHER EDUCATION PERFORMANCE (FUND 54500).....	67
--	----

CAPITAL PROJECTS FUND (FUND 64400).....	68
---	----

PROGRAM DEVELOPMENT ENHANCEMENT (FUND 78200).....	69
---	----

LEGISLATIVE ENDOWMENT SCHOLARSHIP FUND (FUND 88100).....	70
--	----

CAPITAL PROJECTS FY2011 (FUND 89200).....	71
---	----

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	72-73
---	-------

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 <i>GOVERNMENT AUDITING STANDARDS</i>	74-75
--	-------

TABLE OF CONTENTS – CONTINUED

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....76-78

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (FEDERAL
AWARD PROGRAMS AND PERTAINING TO FINANCIAL STATEMENTS).....79-95

PREPARATION OF FINANCIAL STATEMENTS AND EXIT CONFERENCE.....96

State of New Mexico
Higher Education Department

OFFICIAL ROSTER

June 30, 2013

Administrative Officials

<u>Name</u>	<u>Title</u>
Dr. Jose Garcia	Cabinet Secretary
Glenn Walters	Deputy Cabinet Secretary
Kevin Romero	Acting Administrative Services Director
Francis Bannowsky	Director of Adult Basic Education Program
Dina Advani	Acting Director of Institutional Finance/Financial Aid
Bridgette Russell	Director of GEAR UP Program



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD.
6501 AMERICAS PKWY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246
ALBUQUERQUE, NM 87125

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico, Higher Education Department (the Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements and the budgetary comparisons of each of the Department's non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

Basis for Qualified Opinion on Statement of Revenues, Expenditures, and Change in Fund Balance for the Financial Aid Fund

The Department's loan for service subsidiary records (student loans) were not previously reconciled to the Department's books of record and were not previously maintained in all respects in relation to the new loans disbursed, for loan decreases arising from completion of student service requirements, and interest accrued on unpaid balances. Based on our audit for the ended June 30, 2013, we obtained sufficient evidence to conclude that the loan balances are free from material misstatement. Because the loan balances were not audited at the beginning of the year, we did not obtain sufficient audit evidence to satisfy ourselves about the existence, accuracy, and completeness of the revenues, expenditures, and change in fund balance of the Financial Aid Fund.

Basis for Qualified Opinion on Investment in State Treasurer General Fund Investment Pool

As described in Note Q, the State of New Mexico's General Fund Investment Pool (SGFIP) is not currently reconciled and bank to book balances exist. By statute, the Department maintains their cash investment balances at the SGFIP. There are insufficient compensating controls and no other reconciling procedures are evident over the SGFIP balances pertaining to the Department. Accordingly, we did not obtain sufficient audit evidence to satisfy ourselves about the existence, accuracy, rights, and completeness of the financial statement amounts of approximately \$40 million, net of overdrafts. The qualification for SGFIP cash balances affects the respective SGFIP balances for each fund reported on in these financial statements. Any adjustments to the cash balance that might be necessary are unknown at this time.

Qualified Opinions

In our opinion, except for the effects of the two matters described in the "Basis for Qualified Opinion on Statement of Revenues, Expenditures, and Change in Fund Balance for the Financial Aid Fund" and "Basis for Qualified Opinion on Investment in State Treasurer General Fund Investment Pool" paragraphs, 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, 2013 and the respective changes in financial position and budgetary comparisons for the general fund and the major special revenue funds other than the Financial Aid Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Investment in State Treasurer General Fund Investment Pool" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2013

and the respective changes in financial position, and the respective budgetary comparisons for the non-major funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Reporting Entity

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, 2013, 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.

Related-Party Relationship

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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 5–14 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.

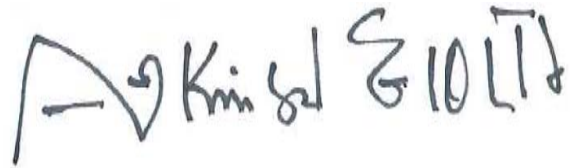
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department’s basic financial statements, the combining and individual non-major fund financial statements, and budgetary comparison information. The schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* as listed in the table of contents is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 16, 2013

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended June 30, 2013

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, 2013. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

Department-wide Financial Statement: The department-wide financial statements include the first two financial statements: the Statement of Net Position 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 Position reports the assets of the Department and the corresponding claims and liabilities against those assets at June 30, 2013. The residual of the difference in the value of the assets and deferred outflows and the liabilities and deferred inflows is reflected as net position. There are no deferred outflows or inflows for the year ended June 30, 2013. Increases or decreases in net position measure whether the financial position of the Department improved or deteriorated. Net position legally limited to a particular use is reported as restricted. Unrestricted net position is assets that can be used to fund operating expenses in future years. A deficit (negative) balance in unrestricted net position 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 position during the 2013 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.

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 B).

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

Fiduciary Funds

Fiduciary funds are used to account for resources the Department holds for others. The Department uses two 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 Position. 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.

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 clarify key financial information. They are integral to understanding the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

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 three (3) 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 Department's fiduciary activities are reported in separate statements of fiduciary Net Position and changes in fiduciary Net Position. 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.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

Financial Analysis of the Department as a Whole

Net Position

The Department's Net Position at June 30, 2013 was \$39 million. Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2013. Current Assets decreased by \$23,311 in FY13 due to significant reduction of Proceeds of State General Obligation (GOB) and Severance Tax Bond (STB) as one project was active during FY13 and nine projects were active during FY12. The decrease is also attributable to reduction in program revenue through federal reimbursements since the GEARUP program was not fully staffed during FY13. The Current Liabilities decreased in FY13 of \$5,334 is attributed to lower than expected expenditures in federal programs due to limited use of the GEARUP program, as well as less capital project expenditures.

**Table A-1
Detail of Department Condensed Net Position as of June 30, 2013 and 2012 (thousands)**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets:			
Current assets	\$ 54,761	\$ 78,072	\$ (23,311)
Non-current assets	15,393	17,398	(2,005)
Capital assets, net of accumulated depreciation	11	88	(77)
Total assets	<u>70,165</u>	<u>95,558</u>	<u>(25,393)</u>
Liabilities:			
Current liabilities	34,000	39,334	(5,334)
Compensated absences	116	111	5
Total liabilities	<u>34,116</u>	<u>39,445</u>	<u>(5,329)</u>
Total assets less liabilities	<u>36,049</u>	<u>56,113</u>	<u>(20,064)</u>
Net Position:			
Investments in capital assets, net of debt	11	88	(77)
Restricted	36,154	56,136	(19,982)
Unrestricted	(116)	(111)	(5)
Total net position	<u>\$ 36,049</u>	<u>\$ 56,113</u>	<u>\$ (20,064)</u>

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

Changes in Net Position

The Department's changes in net position at June 30, 2013 were \$2.7 million. Table A-2 summarizes the Department's changes in net position for the fiscal year ended June 30, 2013. Education expenses decreased by \$22.0 million in FY13 due significantly to the reduction of capital projects from nine projects in FY12 to one projects in FY13 as well as reduced expenditures in federal programs during the fiscal year.

**Table A-2
Statement of Activities as of June 30, 2013 and 2012 (thousands)**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Program revenues:			
Program revenues	\$ 8,888	\$ 10,720	\$ (1,832)
Total program revenues	8,888	10,720	(1,832)
General revenues (expenses):			
State appropriations	34,599	36,104	(1,505)
Other financing sources	2,349	1,040	1,309
Education expenses	(108,363)	(127,071)	18,708
Reversions	(741)	(155)	(586)
Proceeds of State General obligation and severance tax bonds	689	18,399	(17,710)
Proceeds from Lottery	43,685	41,329	2,356
Miscellaneous	(16)	17	(33)
Total general revenues (expenses)	(27,798)	(30,337)	2,539
Investment earnings	104	90	14
Interest on loans	2,818	38	2,780
Loans forgiven - Principal	(4,025)	(60)	(3,965)
Total other investment income (expenses)	(1,103)	68	(1,171)
Change in net position	(20,013)	(19,549)	(464)
Net position beginning of year, as restated	56,061	75,662	(19,601)
Net position, ending	<u>\$ 36,048</u>	<u>\$ 56,113</u>	<u>\$ (20,065)</u>

HED's change in net position decreased by \$16.9 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, 2013

Changes in Capital Assets

During fiscal year 2013 additional adjustments were made to correct vehicle and equipment capitalization and depreciation. The net result of the change is a decrease of 88%.

**Table A-3
Detail of Department Capital Assets as of June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Equipment and machinery	\$ 63,420	\$ 367,566	\$ (304,146)
Furniture and fixtures	-	34,662	(34,662)
Vehicles	-	77,180	(77,180)
Accumulated depreciation	<u>(52,624)</u>	<u>(391,377)</u>	<u>338,753</u>
Total capital assets, net	<u>\$ 10,796</u>	<u>\$ 88,031</u>	<u>\$ (77,235)</u>

Capital Assets for the Department are presented in Note E 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.

- 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.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

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.

Stagnant State General Fund budgeted revenues are attributed to the slow recovery from the recession that affected national and state revenues. This has impacted New Mexico's broad-based tax revenue, which has required appropriations of the General Fund to remain stagnant from FY 2012 to FY 2013 and forecasted for FY14 as well.

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. General Fund actuals are significantly less than budget for FY13 due to high vacancy rate (as illustrated in Personal services), decrease in contracts awarded and federal programs not fully utilizing appropriated budget during the fiscal year.

	Final Budget	Actual Amount
Personal services and employee benefits	\$ 3,725	\$ 2,768
Contractual services	2,706	710
Other	16,567	15,427
Total education	\$ 22,998	\$ 18,905

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
Contractual services	\$ 54	\$ -
Other costs	24,822	23,261
Non-budgeted	-	4,025
Total education	\$ 24,876	\$ 27,286

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

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>
Other costs	\$ 61,877	\$ 61,877
Total education	<u>\$ 61,877</u>	<u>\$ 61,877</u>

Economic and Budgetary Factors

National and State Economy: The national and state economies are experiencing slow increases in the rate of employment and the upcoming Fiscal Year 2014 is anticipated to have a continued slow growth due to unavoidable gridlock at the national level and slow employment growth at the state level. The economic growth is slowly increasing; however negative fiscal and policy news affects the positive growth which results in minimal growth.

In FY2013, the revenue to the State General Fund fell short by \$39.7 million, resulting in a reduction of the FY13 reserves to \$618 million. The revenue shortfall for the state did not affect the department on a budgetary level. Department revenues fell short of appropriations for federal reimbursement grants due to expenses not meeting the projected reimbursement amount.

Future Events That Will Financially Impact the Department

Budgetary Events: Due to activity in the oil and gas industry, the December 2013 Consensus Revenue Estimates for the State of New Mexico concludes to an upward trend in gross receipts. However, New Mexico is still realizing a un-employment rate of 6.6% as of October 2013. Forecasters anticipate slower growth in 2014 and 2015 due to national data being relatively softer of late and the effects of sequestration on the state. The consensus forecasts that the federal government will not modify "sequestration" and tax cuts established in the American Taxpayer Relief Act of 2012 will remain in effect for future years. Growth in real gross domestic product (GDP) is expected to increase in FY 2014 and 2015; however inflation in the U.S. is expected to remain subdued.

Loan-for-Service-Programs: Management has set administrative objectives in addition to its primary charge for supporting and enhancing higher education. At June 30, 2013, loans and interest receivable reported at net realizable value of \$15,392,789 received an unmodified opinion for the balance sheet amounts. An unmodified opinion on the revenue and expense component of these balances is planned for next fiscal year. The Department has expended much effort to accurately report loan balances and has done so this fiscal year.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2013

Cash Balances: 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, 2013, 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.

Management believes that these changes will allow for the completion of a timely and accurate reconciliation on a *point-forward basis only*. The implementation date for the changes associated with the Remediation Project was met on February 1, 2013. HED has implemented the changes and works with DFA in regards to the Remediation Project.

Contact Information
New Mexico Higher Education Department
2048 Galisteo St.
Santa Fe, NM 87505-2100
Phone: (505) 476-8413
www.hed.state.nm.us

State of New Mexico
Higher Education Department

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Investment in State Treasurer General Fund Investment Pool	\$ 48,848,660
Due from other state agencies	570,188
Due from federal government	1,765,916
Accounts receivable	3,575,917
Prepaid expenses	<u>570</u>
Total current assets	54,761,251
Loans and interest receivable, net of allowance for doubtful accounts of \$4,473,219	15,392,789
Capital assets	63,420
Less: accumulated depreciation	<u>(52,624)</u>
Total assets	<u><u>\$ 70,164,836</u></u>
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	\$ 20,822,157
Investment in State Treasurer General Fund Investment Pool overdraft	8,417,100
Accrued salaries and benefits payable	51,245
Due to other state agencies	1,024,596
Due to State General Fund	3,621,768
Compensated absences due within one year	116,284
Deferred revenues	60,649
Other liabilities	<u>2,267</u>
Total current liabilities	<u>34,116,066</u>
Total liabilities	34,116,066
Net Position	
Net investment in capital assets	10,796
Restricted	36,154,258
Unrestricted deficit	<u>(116,284)</u>
Total net position	<u>36,048,770</u>
Total liabilities and net position	<u><u>\$ 70,164,836</u></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, 2013

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Governmental Activities
Governmental activities				
General government	\$ (10,494,275)	\$ -	\$ -	\$ (10,494,275)
Depreciation	(10,869)	-	-	(10,869)
Program activities				
General government				
Adult Basic Education	(4,137,022)	-	4,460,352	323,330
Veterans State Approving Agency	(41,347)	-	45,129	3,782
GEAR-UP	(3,099,513)	-	3,099,513	-
College Access Challenge	(708,507)	-	386,787	(321,720)
GEAR-UP Depreciation	(1,815)	-	-	(1,815)
No Child Left Behind	(429,874)	-	429,874	-
Financial aid programs	(23,260,888)	-	320,884	(22,940,004)
Lottery scholarships	(61,877,327)	-	-	(61,877,327)
Other funds	(4,301,343)	145,592	-	(4,155,751)
	<u>\$ (108,362,780)</u>	<u>\$ 145,592</u>	<u>\$ 8,742,539</u>	<u>(99,474,649)</u>
General revenues and (expenses)				
State General Fund appropriations				34,598,900
Bond proceeds				689,295
Lottery proceeds				43,685,041
Other financing sources				2,349,172
Loans forgiven				(4,025,007)
Reversion to State General Fund				(740,591)
Miscellaneous revenue				47,961
Loss on sale of capital assets				(64,551)
				<u>76,540,220</u>
Other investment income (expenses)				
Investment earnings				103,763
Interest on loans				2,818,224
				<u>2,921,987</u>
Change in net position				<u>(20,012,442)</u>
Net position, beginning (as previously stated)				56,113,712
Prior period restatement				(52,500)
Net position, beginning (as restated)				<u>56,061,212</u>
Net position, ending				<u>\$ 36,048,770</u>

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

State of New Mexico
Higher Education Department

**BALANCE SHEET –
GOVERNMENTAL FUNDS**

June 30, 2013

	91000 General Fund	21600 Financial Aid	63700 Lottery Tuition	Other Governmental Funds	Total Governmental Funds
ASSETS					
Interest in State Treasurer General					
Fund Investment Pool	\$ 11,641,477	\$ 1,363,407	\$ 33,512,516	\$ 2,331,260	\$ 48,848,660
Due from other state agencies	-	500,919	2,571	66,698	570,188
Due from federal government	1,651,466	114,450	-	-	1,765,916
Due from other funds	367,652	-	-	864,365	1,232,017
Accounts receivable	-	53,183	3,515,734	7,000	3,575,917
Prepaid expenses	570	-	-	-	570
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	13,661,165	2,031,959	37,030,821	3,269,323	55,993,268
Non-current assets:					
Loans and interest receivable, net of allowance for doubtful accounts	-	15,392,789	-	-	15,392,789
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 13,661,165	\$ 17,424,748	\$ 37,030,821	\$ 3,269,323	\$ 71,386,057
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES					
Accounts payable	\$ 2,222,079	\$ 279,235	\$ 18,220,418	\$ 102,692	\$ 20,824,424
Interest in State Treasurer General					
Fund Investment Pool overdraft	6,742,152	-	-	1,674,948	8,417,100
Accrued payroll and benefits payable	50,000	-	-	1,245	51,245
Deferred revenue	-	6,750	-	53,899	60,649
Due to other funds	-	367,652	-	864,365	1,232,017
Due to the State General Fund	3,621,768	-	-	-	3,621,768
Due to other state agencies	1,024,596	-	-	-	1,024,596
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	13,660,595	653,637	18,220,418	2,697,149	35,231,799
FUND BALANCES					
Non-Spendable					
Prepaid expenses	570	-	-	-	570
Spendable					
Restricted	-	16,771,111	18,810,403	572,174	36,153,688
Unassigned	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	570	16,771,111	18,810,403	572,174	36,154,258
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 13,661,165	\$ 17,424,748	\$ 37,030,821	\$ 3,269,323	\$ 71,386,057
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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 POSITION –
GOVERNMENTAL FUNDS**

June 30, 2013

Total fund balance for the governmental fund (Balance Sheet)	\$ 36,154,258
Amounts reported for governmental activities in the Statement of Net Position 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	63,420
Accumulated depreciation	<u>(52,624)</u>
	10,796
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>(116,284)</u>
Net position of governmental activities (Statement of Net Position)	<u><u>\$ 36,048,770</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, 2013

	91000 General Fund	21600 Financial Aid	63700 Lottery Tuition	Other Governmental Funds	Total Governmental Funds
Revenues					
Federal sources	\$ 8,421,655	\$ 320,884	\$ -	\$ -	\$ 8,742,539
Licenses, permits and fees	-	-	-	145,592	145,592
Interest on investments	-	9,379	87,607	6,777	103,763
Interest on loans	-	2,818,224	-	-	2,818,224
Miscellaneous revenue	2,041	31,843	12,342	1,735	47,961
Total revenues	8,423,696	3,180,330	99,949	154,104	11,858,079
Expenditures					
Personal services and employee benefits	2,768,493	-	-	130,070	2,898,563
Contractual services	709,558	-	-	24,284	733,842
Other	15,427,354	23,260,888	61,877,327	4,146,989	104,712,558
Total expenditures	18,905,405	23,260,888	61,877,327	4,301,343	108,344,963
Excess (deficiency) of revenues over expenditures	(10,481,709)	(20,080,558)	(61,777,378)	(4,147,239)	(96,486,884)
Other Financing Sources (Uses)					
State General Fund appropriations	11,222,300	22,126,600	-	1,250,000	34,598,900
Bond proceeds appropriations	-	-	-	689,295	689,295
Lottery proceeds	-	-	43,685,041	-	43,685,041
Other financing sources	-	-	-	2,349,172	2,349,172
Loans forgiven	-	(4,025,007)	-	-	(4,025,007)
Reversion to State General Fund	(740,591)	-	-	-	(740,591)
Total other financing sources (uses)	10,481,709	18,101,593	43,685,041	4,288,467	76,556,810
Change in fund balances	-	(1,978,965)	(18,092,337)	141,228	(19,930,074)
Fund balances, beginning (as previously stated)	570	18,750,076	36,902,740	483,446	56,136,832
Prior period restatement	-	-	-	(52,500)	(52,500)
Fund balances, beginning (as restated)	570	18,750,076	36,902,740	430,946	56,084,332
Fund balances, ending	<u>\$ 570</u>	<u>\$ 16,771,111</u>	<u>\$ 18,810,403</u>	<u>\$ 572,174</u>	<u>\$ 36,154,258</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, 2013

Net change in Fund Balance - Total Governmental Funds \$ (19,930,074)
(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 Position and
allocated over their estimated useful lives as annual depreciation
expenses in the Statement of Activities.

Capital asset additions	\$ -	
Depreciation expense	<u>(12,684)</u>	(12,684)

Rounding (1)

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. (64,551)

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>(5,132)</u>
--------------------------------	----------------

Change in net position of governmental activities (Statement of Activities)	<u><u>\$ (20,012,442)</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, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal sources	\$ 9,926,215	\$ 11,825,315	\$ 8,421,655	\$ (3,403,660)
Miscellaneous	-	-	2,041	2,041
Total revenues	9,926,215	11,825,315	8,423,696	(3,401,619)
Prior year fund balance budgeted	-	-		
Total budgeted revenues	9,926,215	11,825,315		
Expenditures				
Personal services and benefits	3,759,976	3,725,175	2,768,493	956,682
Contract services	2,070,700	2,705,501	709,558	1,995,943
Other costs	15,267,839	16,566,939	15,427,354	1,139,585
Total budgeted expenditures	21,098,515	22,997,615	18,905,405	4,092,210
Excess (deficiency) of revenue over expenditures	(11,172,300)	(11,172,300)	(10,481,709)	(7,493,829)
Other financing sources (uses)				
General fund appropriations	11,172,300	11,172,300	11,222,300	50,000
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Reversions	-	-	(740,591)	(740,591)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,184,420)</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 –
FINANCIAL AID PROGRAMS (FUND 21600)**

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal sources	\$ 250,000	\$ 283,000	\$ 320,884	\$ 37,884
Other gift and grants	1,500,000	1,500,000	-	(1,500,000)
Interest on investments	109,400	109,400	9,379	(100,021)
Interest on loans	848,000	848,000	2,818,224	1,970,224
Miscellaneous revenue	8,000	8,000	31,843	23,843
Total budgeted revenues	2,715,400	2,748,400	3,180,330	431,930
Expenditures				
Contractual services	53,500	53,500	-	53,500
Other costs	35,063,400	24,821,500	23,260,888	1,560,612
Total budgeted expenditures	35,116,900	24,875,000	23,260,888	1,614,112
Excess (deficiency) of revenue over expenditures	(32,401,500)	(22,126,600)	(20,080,558)	(1,182,182)
Other financing sources (uses)				
State General Fund appropriations	22,126,600	22,126,600	22,126,600	-
Other financing sources	10,274,900	-	-	-
Other financing (uses)	-	-	-	-
Loans forgiven - principal	-	-	(4,025,007)	(4,025,007)
Transfers and reversions	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ (1,978,965)	\$ (5,207,189)

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, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Lottery proceeds	\$ -	\$ -	\$ -	\$ -
Interest on investments	-	-	87,607	87,607
Miscellaneous revenue	-	-	12,342	12,342
Total budgeted revenues	-	-	99,949	99,949
Expenditures				
Other costs	42,237,800	61,877,327	61,877,327	-
Total budgeted expenditures	42,237,800	61,877,327	61,877,327	-
Excess (deficiency) of revenue over expenditures	(42,237,800)	(61,877,327)	(61,777,378)	99,949
Other financing sources (uses)				
Other financing sources	42,237,800	42,237,800	43,685,041	1,447,241
Net change in fund balance	<u>\$ -</u>	<u>\$ (19,639,527)</u>	<u>\$ (18,092,337)</u>	<u>\$ 1,547,190</u>

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

State of New Mexico
Higher Education Department

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	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)	-	23,910,066	23,910,066
Total assets	2,179,222	23,910,066	26,089,288
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
NET POSITION			
Assets held for others In-trust for scholarships	\$ 2,179,222	\$ 9,835,866	\$ 12,015,088

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

State of New Mexico
Higher Education Department

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2013

	88100 Endowed Merit Scholars Private-Purpose Trust Fund	23900 College Affordability Endowment Trust Fund	Total Trust Fund
ADDITIONS			
Interest from investments	\$ -	\$ 393,652	\$ 393,652
Unrealized (loss) on investments	-	3,264,309	3,264,309
General Fund appropriation	-	-	-
Total additions	-	3,657,961	3,657,961
DEDUCTIONS			
Professional investment fees	-	59,678	59,678
Distributions in accordance with trust agreements	-	2,000,000	2,000,000
Operating transfers	-	-	-
Total deductions	-	2,059,678	2,059,678
CHANGE IN NET POSITION	-	1,598,283	1,598,283
Net position, beginning	2,179,222	8,237,583	10,416,805
Net position, ending	<u>\$ 2,179,222</u>	<u>\$ 9,835,866</u>	<u>\$ 12,015,088</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 accounting principles generally accepted in the United States of America (GAAP) as applied to Governmental Entities. 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.

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. 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 14 and GASB 61.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Reporting Entity and Component Units – Continued

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

The Department's basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements which provide information about the reporting government as a whole. Those statements include primary government activities, noting that neither fiduciary funds nor component units that are fiduciary in nature are included. Both the government-wide and fund financial statements (within the basic statement) categorized primary activities as either governmental or business type. The Department is a single-purpose government entity and has no business-type activities. In the government-wide Statement of Net Position, 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 Position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

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 two 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

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

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

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

The following fund types are used by the Department:

GOVERNMENTAL FUND TYPES

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means collectible within the current period, generally 60 days to be used to pay liabilities of the current period. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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

- 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

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.

10990 ABE Instructional Material Fund

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

Merit Based Scholarships Fund (SHARE Fund 21600, Dept. #0000)

Allied Health Services Student Loan Fund (SHARE Fund 21600, Dept. #3100)

Medical Student Loan Fund (SHARE Fund 21600, Dept. #3200)

Minority Doctoral Assistance Loan Program (SHARE Fund 21600, Dept. #3300)

Nursing Student Loan Fund (SHARE Fund 216, Dept. #3400)

Osteopathic Student Loan Fund (SHARE Fund 21600, Dept. #3500)

Southeastern New Mexico/Teachers/Teachers Quality Loan Fund
(SHARE Fund 21600, Dept. #3600)

Health Professional Loan Repayment Program (SHARE Fund 21600,
Dept.'s #3700 and #3800)

Graduate Fellowship Fund (SHARE Fund 21600, Dept. #3900)

Endowed Merit Scholars (SHARE Fund 21600, Dept. #4000)

Work Study Program Fund (SHARE Fund 21600, Dept. #4100)

New Mexico Scholars (SHARE Fund 21600, Dept. #4200)

Student Choice Grants Fund (SHARE Fund 21600, Dept. #4400)

State Student Incentive Grants Fund (SHARE Fund 21600, Dept. #4500)

New Mexico Student Incentive Federal Grants Fund (SHARE Fund 21600,
Dept. #4600)

Vietnam Veterans' Scholarship Fund (SHARE Fund 21600, Dept. # 4700)

Lottery Tuition (SHARE Fund 63700, Dept. #4800)

WICHE (Western Interstate Commission of Higher Education)
(SHARE Fund 21600, Dept. #4900)

Dentistry (SHARE Fund 21600, Dept. #5000)

Byrd Scholarship Fund (SHARE Fund 21600, Dept. #5500)

College Access Challenge Fund (SHARE Fund 21600, Dept. #6000)

Pathways Scholarship (SHARE Fund 21600, Dept. #6100)

PSL Loan Repayment (Public Service Law Loan Repayment)
(SHARE Fund 21600, Dept. #7000)

21700 College Affordability Scholarship Fund

29200 College Goal Sunday Grant

34400 Post-Secondary Educational Institution Fund

47900 Faculty Endowment Fund

54500 Higher Education Performance Fund

63700 Lottery Tuition Fund

64400 Capital Projects

78200 Program Development & Enhancement Fund

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

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 Position. 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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. 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*. Capital assets are reported at historical costs and depreciated over their estimated useful lives. Depreciation expense is reported in the Statement of Activities. The net position of the Department consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the residual is net position. There were no deferred outflows or deferred inflows of resources for the year ended June 30, 2013. See Note S for more information on deferred outflows and inflows of resources.

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.
- 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Budget and Budgetary Accounting – Continued

- 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.

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, the Budgetary Comparison Statement for the General Fund and major special revenue funds have been included as part of the basic financial statements.

7. Interest in State General Fund Investment Pool

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

8. Accounts Payable

Accounts payable represent expenditures for goods and services for the current fiscal year which have not been paid by the DFA by fiscal year end.

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Accrued Payroll and Benefits Payable

A portion of payroll expenditures was accrued pertaining to the year ended June 30, 2013. The disbursements for pay periods ending before or near year-end did not occur until after fiscal year end; therefore, accrued salaries, payroll taxes and benefit payables totaling \$51,245 were reflected in the financial statements as of June 30, 2013.

11. 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.

12. Accrued Compensated Absences

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

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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Accrued Compensated Absences – Continued

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.

13. 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.

14. 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, 2013, for prepaid expenses that are in non-spendable form.

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 \$39,361,884 in special revenue funds as of June 30, 2013.

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 a prior year transaction. The Department anticipates that these negative fund balances will be corrected with future funding or transfers.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Fund Balances – Continued

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 has no committed fund balances as of June 30, 2013.

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, 2013.

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, 2013.

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

15. Net Position

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

Net Investment in Capital Assets – reflects the portion of Net Position 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 Position is reported as restricted when constraints placed on 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Net Position - Continued

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 Position restricted by enabling legislation is \$36,154,258 which represents all restricted Net Position reported on page 15.

Unrestricted Assets – consist of Net Position that do not meet the definition of “restricted” or “net investment in capital assets”.

16. 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.

NOTE C – CASH AND INVESTMENTS (UNAUDITED)

Included in cash is \$40,431,560 of funds that are held in the State Treasurer’s General Fund Investment Pool (SGFIP). 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 5135, Santa Fe, NM 87505-5135.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE C – CASH AND INVESTMENTS (UNAUDITED) – CONTINUED

The Department is not permitted to have any investments, and the Department did not have any investments of its own during the year ended June 30, 2013. There is no custodial risk at the Department level since the account is under the control of the New Mexico State Treasurer. Other requirements of GASB 40, including disclosure of interest rate risk and credit risk are met at the level of the New Mexico State Treasurer.

Custodial Credit Risk – Deposits. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2013, 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 Q 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, 2013 to afford an opinion on the GFIP balances. Accordingly, the scope of our procedures was insufficient for the year 2013. 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, 2013, 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, 2013

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 Treasurer Balance	Outstanding Warrants	(Unaudited) Reconciled Balance
91000	General Fund	\$ 4,899,325	\$ -	\$ 4,899,325
10990	ABE Instructional Materials	3	-	3
21600	Student Financial Aid	1,363,407	-	1,363,407
21700	College Affordability Scholarship	(810,583)	-	(810,583)
23900	College Affordability Endowment	(14,074,200)	-	(14,074,200)
29200	College Goal Sunday Grant	8,501	-	8,501
34400	Post-Secondary Education Institution Fund	611,983	-	611,983
47900	Faculty Endowment Fund	83,097	-	83,097
54500	Performance Fund	2,073	-	2,073
63700	Lottery Tuition Fund	33,512,516	-	33,512,516
64400	Capital Projects	753,045	-	753,045
78200	Performance Development Fund	154,113	-	154,113
88100	Legislative Endowment Scholarship	2,897,667	-	2,897,667
89200	Capital Projects (FY 2013)	(864,365)	-	(864,365)
		<u>\$ 28,536,582</u>	<u>\$ -</u>	<u>28,536,582</u>
Less:				
88100	Legislative Endowment Scholarship Non-expendable Trust Fund included above			(2,179,222)
23900	College Affordability Scholarship			14,074,200
	Total expendable cash			<u>\$ 40,431,560</u>
Non-expendable Trust Fund:				
88100	Legislative Endowment Scholarship Non-expendable Trust Fund included above			\$ 2,179,222
23900	College Affordability Scholarship			(14,074,200)
	Total non-expendable cash (overdraft)			<u>\$ (11,894,978)</u>
Reconciliation to Statements of Net Position:				
	Cash and investments			\$ 48,848,660
	Less: overdraft			(8,417,100)
	Total expendable cash			<u>\$ 40,431,560</u>

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

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, 2013:

	<u>Fair Value</u>
Core Bond Fund	\$ 4,404,135
Large Cap Active Fund	6,815,221
Large Cap Index Fund	6,963,436
Mid/Small Cap Active Fund	3,893,347
Non US Developed	1,264,861
US Emerging Markets	<u>569,066</u>
Total long-term investments	<u>\$ 23,910,066</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.

Custodial Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Department is required to disclose credit ratings of their debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. Government, and non-debt investments are excluded from this requirement.

Currently, the State Investment Council's pooled funds are not rated.

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 State Agencies

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

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE D – RECEIVABLES – CONTINUED

1. Due from Other State Agencies – Continued

SHARE Fund No.	Fund/Program	Description	Amount	Due From
64400	Capital Projects	Bond proceeds	\$ 66,429	New Mexico Board of Finance
63700	Lottery Tuition	Lottery proceeds	3,518,305	NM Lottery
21600	Financial Aid	Grant proceeds	500,919	Office of the NM State Treasurer
29200	College Goal	Accrual investment interest	1	Office of the NM State Treasurer
47900	Faculty Endowment	Accrual investment interest	7	Office of the NM State Treasurer
78200	Development Enhancement	Accrual investment interest	12	Office of the NM State Treasurer
88100	Endowed Merit Scholarships	Accrual investment interest	249	Office of the NM State Treasurer
Total Due from Other State Agencies			<u>\$ 4,085,922</u>	

Amounts due from other state agencies in the lottery tuition fund are presented as accounts receivable in the financial statements.

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, 2013 follows:

	Group	Approp. ID	Approp. End Date	Amount Sold	Amount Drawn Prior	Amount Drawn Current	Amount AIPP	Balance Held	SHARE #
								by State Board of Finance June 30, 2013	Capital Project Fund
Library Acquisitions Academic Statewide	GOB11	10-1229	6/30/2014	\$ 2,000,000	\$ (796,597)	\$ (689,295)	\$ -	\$ 514,108	64400
				<u>\$ 2,000,000</u>	<u>\$ (796,597)</u>	<u>\$ (689,295)</u>	<u>\$ -</u>	<u>514,108</u>	

2. Due from Federal Government

Amounts shown as “Due from Federal Government” represent expenditures to be reimbursed under various grant 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.

Total amounts that are due from the federal government are as follows:

SHARE Fund No.	Fund/Program	Description	Amount	Due From
91000	General Fund	General Fund	\$ 1,651,466	Federal Government
21600	Financial Aid	Financial Aid	114,450	Federal Government
Total Due from Federal Government			<u>\$ 1,765,916</u>	

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE D – RECEIVABLES – CONTINUED

3. Interfund Receivables/Payables

Total interfund balances are as follows:

	Due to Other Funds		
	21600 Financial Aid Fund	64400 Capital Projects Fund	Total
91000 General Fund	\$ 367,652	\$ -	\$ 367,652
89200 Capital Projects Fund (FY2011)	-	864,365	864,365
Total	<u>\$ 367,652</u>	<u>\$ 864,365</u>	<u>\$ 1,232,017</u>

4. Loans and Interest Receivable

Under the Department's loan for service programs, 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 net of allowances for doubtful accounts. An allowance for doubtful accounts has been established for individual principal and interest balances that are not expected to be collected. Loan balances are as follows at June 30, 2013:

Loan for Service Program	Loans Receivable	Interest Receivable	Total Loan and Interest Receivable	Allowance for Doubtful Accounts	Net Loans Receivable
WICHE	\$ 10,223,623	\$ 714,349	\$ 10,937,972	\$ (600,213)	\$ 10,337,759
Medical Loan	1,855,511	915,141	2,770,652	(1,277,315)	1,493,337
Nursing Loan	1,627,842	1,080,807	2,708,649	(1,415,468)	1,293,181
Minority Doctoral Loan	948,077	158,275	1,106,352	(64,251)	1,042,101
Osteopathic Loan	211,296	335,759	547,055	(547,055)	-
Allied Health Service Loan	442,943	54,056	496,999	(86,173)	410,826
Inactive Programs	169,046	297,205	466,251	(430,658)	35,593
Teacher Loan	328,691	114,970	443,661	(52,087)	391,574
Baylor Dentistry	311,526	2,588	314,114	-	314,114
Health Professional Loan Repayment Program	27,832	7,712	35,544	-	35,544
Nurse Educator	20,250	178	20,428	-	20,428
Law Loan Repayment Program	17,090	1,242	18,332	-	18,332
	<u>\$ 16,183,727</u>	<u>\$ 3,682,282</u>	<u>\$ 19,866,009</u>	<u>\$ (4,473,220)</u>	<u>\$ 15,392,789</u>

Interest income and bad debt expense related to such loans are unaudited for fiscal year 2013.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE E – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Additions	Adjustments	Deletions	Balance June 30, 2013
Capital assets:					
Equipment and machinery	\$ 367,566	\$ -	\$ -	\$ (304,146)	\$ 63,420
Furniture and fixtures	34,662	-	-	(34,662)	-
Vehicles	77,180	-	-	(77,180)	-
Total at historical cost	479,408	-	-	(415,988)	63,420
Less accumulated depreciation:					
Equipment and machinery	317,732	12,684	-	(277,792)	52,624
Furniture and fixtures	34,589	-	-	(34,589)	-
Vehicles	39,056	-	-	(39,056)	-
Total accumulated depreciation	391,377	12,684	-	(351,437)	52,624
Other capital assets, net	<u>\$ 88,031</u>	<u>\$ (12,684)</u>	<u>\$ -</u>	<u>\$ (64,551)</u>	<u>\$ 10,796</u>
Net capital assets:					
Equipment and machinery	\$ 49,834	\$ (12,684)	\$ -	\$ (26,354)	\$ 10,796
Furniture and fixtures	73	-	-	(73)	-
Vehicles	38,124	-	-	(38,124)	-
Total net capital assets	<u>\$ 88,031</u>	<u>\$ (12,684)</u>	<u>\$ -</u>	<u>\$ (64,551)</u>	<u>\$ 10,796</u>

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 in the Statement of Net Position for annual and sick leave based on current pay rates and hours accumulated at June 30, 2013. The General Fund liquidates compensated absences liabilities.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE F – COMPENSATED ABSENCES PAYABLE – CONTINUED

A summary of changes in the compensated absences payable for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Increase	Decrease	Balance June 30, 2013	Amount Due Within One Year
Compensated absences payable					
General Fund	\$ 111,152	\$ 106,247	\$ (101,115)	\$ 116,284	\$ 116,284

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, 2013. In computing the reversion amount, the Department excludes department codes that are used exclusively to account for federal or other non-state provided funding. The following shows the computation of the amount due to the State General Fund at June 30, 2013:

1. Due to State General Fund

	91000 General Fund
Due to State General Fund as of June 30, 2013	\$ 3,621,768

2. Reversion

	Reversion Amount
Year ended June 30	
2013	\$ 740,591
2012, 2011 and 2010	2,881,177
Total reversions	\$ 3,621,768

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, 2013 were \$335,966.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE H – OPERATING LEASES – CONTINUED

Future minimum payments under these operating leases are as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2014	\$ 164,479
2015	26,665
2016	16,349
2017	954
2018	-
	<u>\$ 208,447</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, 2013

NOTE J – OTHER FINANCING USES/SOURCES

Fund No.	Fund Name/Description	Financing Sources	Financing Uses
21700	College Affordability Scholarship		
	Transfer in from College Affordability Trust Fund	\$ 2,000,000	\$ -
10990	ABE Instruction Materials		
	Funds from Public Education Department awarded for scholarship	349,172	-
	Total	<u>\$ 2,349,172</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	63700 Lottery Tuition	64400 Capital Projects	Total
DFA	34100	85300	Fund Appropriation	\$ 11,222,300	\$ 22,126,600	\$ 1,250,000	\$ -	\$ -	\$ 34,598,900
NM Lottery Authority	81100	63700	Lottery Proceeds for Scholarships	-	-	-	43,685,041	-	43,685,041
State Board of Finance	34100	85300	Bond Proceed Appropriation	-	-	-	-	689,295	689,295
				<u>\$ 11,222,300</u>	<u>\$ 22,126,600</u>	<u>\$ 1,250,000</u>	<u>\$ 43,685,041</u>	<u>\$ 689,295</u>	<u>\$ 78,973,236</u>

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 10.67 percent of their gross salary. The Department is required to contribute 13.34 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, 2013, 2012, and 2011, were \$278,664, \$247,518, and \$332,922, respectively, which equal the amount of the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

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

Plan Description. The 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.

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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (State Police and Adult Correctional Officer Member Coverage Plan 1; Municipal Police Member Coverage Plans 3, 4 or 5; Municipal Fire Member Coverage Plan 3, 4 or 5; Municipal Detention Officer Member Coverage Plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

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

ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Higher Education Department's contributions to the RHCA for the years ended June 30, 2013, 2012, and 2011, were \$36,960, \$34,303, and \$36,301, respectively, which equal the required contributions for each year.

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.

The audit of the Agency's major federal programs revealed various instances of noncompliance and control weaknesses. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE P – PRIOR PERIOD RESTATEMENT

A prior period restatement of the fund balance for the Post-Secondary Educational Institution Fund (#34400) in the amount of \$52,500 was required to account for revenues collected in the previous fiscal year for fees related to the current year that should have been reported as deferred revenues in the prior year.

NOTE Q – STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool or SGFIP), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent expert diagnostic report revealed that Pool balances had not reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) in July of 2006. This report, entitled “Current State of Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration’s (DFA) at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By State statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller/Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State’s SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE Q – GENERAL FUND INVESTMENT POOL NOT RECONCILED – CONTINUED

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. The State considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences after specific allocation to Pool participants will be reported in the State General Fund.

The State General Fund recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with GAAP, the amount accrued is the minimum amount that the State considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

As noted in Note C, the Department does not have sufficient mitigating controls in place to address the deficiencies at the state-level.

NOTE R – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 16, 2013, the date the financial statements were available to be issued. In the opinion of management, no events occurring after this date require adjustment to or disclosure in the financial statements.

NOTE S – NEW ACCOUNTING STANDARDS

GASB 62 – The Department implemented Government Accounting Standards Board Opinion (GASB) No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” during the year ended June 30, 2013. GASB 62 codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election available to proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

GASB 63 – The Department implemented Governmental Accounting Standard Board Statement No. 63 “Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position” for the year ending June 30, 2013. GASB 63 introduces a fundamental change to the reporting of elements that make up a statement of financial position. Deferred outflows of resources and deferred inflows of resources are now included in the elements that make up a statement of financial position and GASB 63 introduces the term net position for reporting the residual of all elements in a statement of financial position. The Statement of Net Position of the Department at June 30, 2013 conforms to the presentation requirements of GASB 63. There were no deferred outflows or inflows to separately report at June 30, 2013.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 5 – NEW ACCOUNTING STANDARDS – CONTINUED

GASB 65 – Governmental Accounting Standard Board Statement No. 65 “Items Previously Reported as Assets and Liabilities” changes the classification of certain financial statement balances including several more common type transactions to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after December 15, 2012. The Department will implement this standard in fiscal year 2014.

GASB 68 – Governmental Accounting Standard Board Statement No. 68 “Accounting and Financial Reporting for Pensions” revises existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record a government’s pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for multiemployer cost sharing plan. The Department is a participating member of the Public Employees Retirement Association (PERA), a multiemployer cost sharing plan. Information to implement this standard will be developed by PERA and the State of New Mexico. The implementation date for GASB 68 is for FY 15. The current status of the unfunded liability for PERA is \$6.18 billion based on the most recently issued audited financials statement at June 30, 2012. Legislation was passed in the last year changing PERA’s plan benefits design and contribution requirements to fully fund UAAL within 30 years.

SUPPLEMENTARY INFORMATION

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS

June 30, 2013

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, 2013

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.

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2013

Special Revenue Funds – Continued

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 #88100). Per Section 21-21J-8, money appropriated to the fund is non-reverting to the State General Fund.

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

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

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2013

Special Revenue Funds – Continued

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

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

New Mexico Student Incentive Federal Grants (LEAP/SLEAP Federal Fund (SHARE Fund #21600 Dept. #4600)) – Program fund accounts for the federal portion of the LEAP/SLEAP program. Monies in this fund are used to provide initial and continuation student grants to undergraduates with substantial financial need for attendance at public and private post-secondary education institutions based on criteria adopted by the Department. This federal portion is separated from State funds as required by the federal contract. The Department has Maintenance of Effort requirements to maintain level of funding.

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

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

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2013

Special Revenue Funds – Continued

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 awards to eligible applicants. Students receive scholarships for college expenses. Legislative Citation – Higher Education Act of 1965 (HEA, as amended, Title IV, Part A, Subpart 6, Sections 419A-419K; 20 U.S.C. 1070d-31—1070d-41).

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

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

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

Merit Based Scholarships Fund (SHARE Fund 21600 Dept. #5400) – This fund accounts for Merit Scholarships which are funded by the Endowed Merit Scholars Private Trust Fund.

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

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS

June 30, 2013

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. Money appropriated to the fund is non-reverting to the State General Fund.

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 students. Per Section 21-1-27-3, money appropriated to the fund is non-reverting to the State General Fund.

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

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

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

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

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS – CONTINUED

June 30, 2013

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 obligation bonds and severance tax bonds. The projects appropriated to this fund have multiple-year budgets. The multiple-year appropriation budgetary comparison for this fund is presented as Supplementary Information. Funds not utilized are rolled forward to the subsequent fiscal 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.

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 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, 2013

	10990	21700	29200	34400	47900	54500		78200	88100	89200	Total
	ABE	College	College Goal	Post-Secondary		Higher	64400	Program	Legislative	Capital	Non-Major
	Instructional	Affordability	Sunday	Educational	Faculty	Education	Capital	Development	Endowment	Projects	Governmental
	Materials	Scholarship	Grant	Institution	Endowment	Performance	Projects	Enhancement	Scholarship	FY2011	Funds
ASSETS											
Interest in State Treasurer General											
Fund Investment Pool	\$ 3	\$ -	\$ 8,501	\$ 611,983	\$ 83,097	\$ 2,073	\$ 753,045	\$ 154,113	\$ 718,445	\$ -	\$ 2,331,260
Due from other state agencies	-	-	1	-	7	-	66,429	12	249	-	66,698
Accounts receivable	-	-	-	7,000	-	-	-	-	-	-	7,000
Due from other funds	-	-	-	-	-	-	-	-	-	864,365	864,365
Due from federal government	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 8,502</u>	<u>\$ 618,983</u>	<u>\$ 83,104</u>	<u>\$ 2,073</u>	<u>\$ 819,474</u>	<u>\$ 154,125</u>	<u>\$ 718,694</u>	<u>\$ 864,365</u>	<u>\$ 3,269,323</u>
LIABILITIES AND FUND BALANCES											
Liabilities											
Accounts payable	\$ -	\$ 4,867	\$ -	\$ 27,687	\$ -	\$ -	\$ 70,138	\$ -	\$ -	\$ -	\$ 102,692
Interest in State Treasurer Federal											
Fund Investment Pool - overdraft	-	810,583	-	-	-	-	-	-	-	864,365	1,674,948
Accrued payroll and benefits payable	-	-	-	1,245	-	-	-	-	-	-	1,245
Deferred Revenue	-	-	-	53,899	-	-	-	-	-	-	53,899
Due to other funds	-	-	-	-	-	-	864,365	-	-	-	864,365
Due to state general fund	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	815,450	-	82,831	-	-	934,503	-	-	864,365	2,697,149
Fund Balances											
Spendable											
Restricted	3	(815,450)	8,502	536,152	83,104	2,073	(115,029)	154,125	718,694	-	572,174
Unassigned	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>3</u>	<u>(815,450)</u>	<u>8,502</u>	<u>536,152</u>	<u>83,104</u>	<u>2,073</u>	<u>(115,029)</u>	<u>154,125</u>	<u>718,694</u>	<u>-</u>	<u>572,174</u>
Total liabilities and fund balances	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 8,502</u>	<u>\$ 618,983</u>	<u>\$ 83,104</u>	<u>\$ 2,073</u>	<u>\$ 819,474</u>	<u>\$ 154,125</u>	<u>\$ 718,694</u>	<u>\$ 864,365</u>	<u>\$ 3,269,323</u>

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, 2013

	10990 ABE Instructional Materials	21700 College Affordability Scholarship	29200 College Goal Sunday Grant	34400 Post-Secondary Educational Institution	47900 Faculty Endowment	54500 Higher Education Performance	64400 Capital Projects	78200 Program Development Enhancement	88100 Legislative Endowment Scholarship	89200 Capital Projects FY2011	Total Non-Major Governmental Funds
Revenues											
Federal revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, fees and permits	-	-	-	145,592	-	-	-	-	-	-	145,592
Interest on investments	-	-	19	-	186	5	-	89	6,478	-	6,777
Miscellaneous revenue	-	1,735	-	-	-	-	-	-	-	-	1,735
Other grant revenue	-	-	-	-	-	-	-	-	-	-	-
Total revenues	-	1,735	19	145,592	186	5	-	89	6,478	-	154,104
Expenditures											
Personal services and employee benefits	-	-	-	80,061	-	-	-	50,009	-	-	130,070
Contractual services	-	-	-	24,284	-	-	-	-	-	-	24,284
Other	349,169	1,993,550	-	15,030	-	-	689,239	1,100,001	-	-	4,146,989
Total expenditures	349,169	1,993,550	-	119,375	-	-	689,239	1,150,010	-	-	4,301,343
Excess (deficiency) of revenues over expenditures	(349,169)	(1,991,815)	19	26,217	186	5	(689,239)	(1,149,921)	6,478	-	(4,147,239)
Other financing sources (uses)											
State General Fund appropriation	-	-	-	-	-	-	-	1,250,000	-	-	1,250,000
Bond proceeds appropriations	-	-	-	-	-	-	689,295	-	-	-	689,295
Other financing sources	349,172	2,000,000	-	-	-	-	-	-	-	-	2,349,172
Reversion to state general fund	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	349,172	2,000,000	-	-	-	-	689,295	1,250,000	-	-	4,288,467
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	3	8,185	19	26,217	186	5	56	100,079	6,478	-	141,228
Fund balances, beginning (as previously stated)	-	(823,635)	8,483	562,435	82,918	2,068	(115,085)	54,046	712,216	-	483,446
Prior period restatement	-	-	-	(52,500)	-	-	-	-	-	-	(52,500)
Fund balances, beginning (as restated)	-	(823,635)	8,483	509,935	82,918	2,068	(115,085)	54,046	712,216	-	430,946
Fund balance, ending	\$ 3	\$ (815,450)	\$ 8,502	\$ 536,152	\$ 83,104	\$ 2,073	\$ (115,029)	\$ 154,125	\$ 718,694	\$ -	\$ 572,174

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, 2013

	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	284,900	349,172	349,169	3
Total budgeted expenditures	284,900	349,172	349,169	3
Excess (deficiency) of revenue over expenditures	(284,900)	(349,172)	(349,169)	3
Other financing sources (uses)				
Other financing sources	284,900	349,172	349,172	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</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
COLLEGE AFFORDABILITY SCHOLARSHIP (FUND 21700)**

For the Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ -	\$ -
Other revenue	-	-	1,735	1,735
Total budgeted revenues	-	-	1,735	1,735
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	2,000,000	2,000,000	1,993,550	6,450
Total budgeted expenditures	2,000,000	2,000,000	1,993,550	6,450
Excess (deficiency) of revenue over expenditures	(2,000,000)	(2,000,000)	(1,991,815)	8,185
Other financing sources (uses)				
Other financing sources	2,000,000	2,000,000	2,000,000	-
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 8,185	\$ 8,185

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, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 19	\$ 19
Other revenue	-	-	-	-
Total budgeted revenues	-	-	19	19
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	19	19
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 19	\$ 19

Note: No budget was prepared for this fund due to low activity.

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, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Other licenses	\$ 144,400	\$ 144,400	\$ 145,592	\$ 1,192
Other revenue	-	-	-	-
Total budgeted revenues	144,400	144,400	145,592	1,192
Prior year cash budgeted	611,983	611,983		
Total budgeted revenues	756,383	756,383		
 Expenditures				
Personal services and benefits	40,000	129,000	80,061	48,939
Contractual services	-	25,000	24,284	716
Other costs	104,400	15,400	15,030	370
Total budgeted expenditures	144,400	169,400	119,375	50,025
 Excess (deficiency) of revenue over expenditures				
	611,983	586,983	26,217	(48,833)
 Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ 611,983	\$ 586,983	\$ 26,217	\$ (48,833)

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, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 186	\$ 186
Other revenue	-	-	-	-
Total budgeted revenues	-	-	186	186
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	186	186
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 186</u>	<u>\$ 186</u>

Note: No budget was prepared for this fund due to low activity.

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, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 5	\$ 5
Other revenue	-	-	-	-
Total budgeted revenues	-	-	5	5
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	5	5
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 5</u>

Note: No budget was prepared for this fund due to low activity.

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 FUND (FUND 64400)**

For the Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Other revenues	\$ -	\$ -	\$ -	\$ -
Total budgeted revenues	-	-	-	-
Expenditures				
Other costs	1,204,992	1,204,992	689,239	515,753
Total budgeted expenditures	1,204,992	1,204,992	689,239	515,753
Excess (deficiency) of revenue over expenditures	(1,204,992)	(1,204,992)	(689,239)	515,753
Other financing sources (uses)				
Bond proceeds appropriations	1,204,992	1,204,992	689,295	(515,697)
Net change in fund balance	\$ -	\$ -	\$ 56	\$ 56

Capital projects appropriations accounted for in this fund are multiple-year appropriations; consequently, the unused portion of appropriations are rolled forward for use in subsequent years and are the basis for budgeted expenditures and other financing sources.

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, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 89	\$ 89
Other revenue	-	-	-	-
Total budgeted revenues	-	-	89	89
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Personal services and benefits	-	62,500	50,009	12,491
Other costs	1,250,000	1,187,500	1,100,001	87,499
Total budgeted expenditures	1,250,000	1,250,000	1,150,010	99,990
Excess (deficiency) of revenue over expenditures	(1,250,000)	(1,250,000)	(1,149,921)	100,079
Other financing sources (uses)				
State General Fund appropriation	1,250,000	1,250,000	1,250,000	-
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 100,079	\$ 100,079

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, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 6,478	\$ 6,478
Other revenue	-	-	-	-
Total budgeted revenues	-	-	6,478	6,478
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	6,478	6,478
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,478</u>	<u>\$ 6,478</u>

Note: No budget was prepared for this fund due to low activity.

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, 2013

	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	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	-	-
Other financing sources (uses)				
Bond proceeds appropriations	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: No budget was prepared for this fund due to low activity.

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

State of New Mexico
Higher Education Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

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 FFY11	V002A110031	84.002A	\$ 171,093
Adult Education - Basic Grants to States FFY12	V002A120031	84.002A	3,965,929
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S06009	84.334A	25,137
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S12005	84.334A	3,074,376
No Child Left Behind FFY10	S367B100028	84.367B	148,161
No Child Left Behind FFY11	S367B110028	84.367B	281,712
College Access Challenge Grant	P378A100052	84.378A	398,135
College Access Challenge Grant	P378A110052	84.378A	310,372
Veterans State Approving ARRA	V101 (223C) P-5040	84.xxx	41,347
Total U.S. Department of Education			8,416,262
U.S. Department of Health and Human Services:			
Direct Programs:			
Grants to States for Loan Repayment Program	H56HP00099-24-01	93.165	9,375
Grants to States for Loan Repayment Program	H56HP00099-25-01	93.165	126,875
Total U.S. Department of Health and Human Services			136,250
Department of Justice			
Direct Programs:			
John R Justice	2011-RJ-BX-0046	16.816	79,125
Total U.S. Department of Justice			79,125
			<u>\$ 8,631,637</u>
The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.			
Federal expenditures			\$ 8,631,637
Other			110,902
Total federal sources per the financial statements			<u>\$ 8,742,539</u>

State of New Mexico
Higher Education Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2013

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	\$ 3,446,105
GEAR-UP	83.334A	2,532,776
No Child Left Behind	84.367B	<u>408,044</u>
Total provided to subrecipients		<u>\$ 6,386,925</u>



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD.
6501 AMERICAS PKWY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246
ALBUQUERQUE, NM 87125

**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, in accordance with the 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, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund and major special revenue funds, of the State of New Mexico Higher Education Department (the Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the combining and individual non-major funds and related budgetary comparisons presented as supplementary information and have issued our report thereon dated December 16, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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 *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. 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 as items 2006-01, 2010-01, 2010-05, and 2012-01 to be material weaknesses.

Compliance and Other Matters

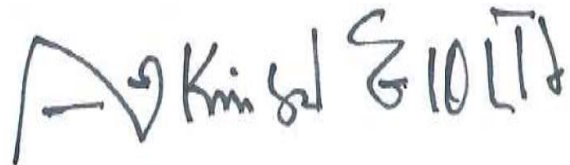
As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2.2.2 NMAC and which are described in the accompanying schedule of findings and questioned costs as items 2010-18 and 2013-01.

The Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 16, 2013



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD.
6501 AMERICAS PKWY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246
ALBUQUERQUE, NM 87125

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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

Report on Compliance for Each Major Federal Program

We have audited State of New Mexico Higher Education Department's (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Department's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Basis for Qualified Opinion on GEAR UP, Adult Education, and No Child Left Behind

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding CFDA 84.334A GEAR UP, CFDA 84.002A Adult Education, and CFDA 84.367B No Child Left Behind as described in finding number 2010-18 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to these programs.

Qualified Opinion on GEAR UP, Adult Education, and No Child Left Behind

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Department, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the GEAR UP, Adult Education, and No Child Left Behind programs for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed no other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

The Department's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

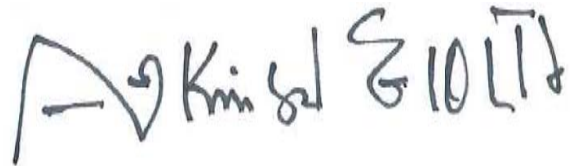
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-18 to be a material weakness.

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 2010-13, 2010-15, and 2010-16 to be significant deficiencies.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read 'King & Co. Ltd.' with a stylized initial 'A' to the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 16, 2013

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

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? No

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? Qualified

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	84.367B

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as a low –risk auditee? No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

II - STATUS OF PRIOR AUDIT FINDINGS

Financial Statement Findings

- 2006-01 Reconciliation and Tracking of Loan-for-Service Programs – Repeated and modified
- 2010-01 Entity-Level Controls over Financial Reporting – Repeated and modified
- 2010-03 Controls Related to Cash Receipts Transaction Cycle – Merged with 2010-01
- 2010-04 Controls Related to Cash Disbursement Transaction Cycle – Resolved
- 2010-05 Capital Projects Accounting and Reporting – Repeated and modified
- 2012-01 Lack of Cash Reconciliation Procedures – Partially repeated
- 2012-02 Lack of General Ledger Reconciliation Procedures – Merged with 2010-01

Findings In Accordance With 2.2.2 NMAC

- 2010-07 Due Date of Audit Report – Resolved
- 2010-09 Budgetary Compliance (Compliance/Other Matter) – Resolved
- 2010-21 Untimely Reversion – Resolved
- 2011-01 Compliance with Procurement Code of New Mexico – Resolved
- 2012-03 Compliance with Related Party Disclosures – Resolved
- 2012-04 Capital Asset Inventory Not Performed – Resolved

Federal Award Findings And Questioned Costs

- 2010-12 Schedule of Expenditures of Federal Awards Preparation – Resolved
- 2010-13 Cash Management Controls and Compliance – Repeated and modified
- 2010-15 Allowable Costs – Repeated and modified
- 2010-16 Procurement, Suspension, and Debarment – Repeated and modified
- 2010-17 Federal Grant Reporting – Resolved
- 2010-18 Federal Grant Subrecipient Monitoring – Repeated and modified

III – 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)
- 2010-05 Capital Projects Accounting and Reporting (Material Weakness)
- 2010-18 Federal Grant Subrecipient Monitoring (Compliance)
- 2012-01 Lack of Cash Reconciliation Procedures (Material Weakness)

IV – FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC

- 2013-01 Late Submission of Auditor Recommendation and Contract (Compliance)

V – FEDERAL AWARD FINDINGS

- 2010-13 Cash Management Controls (Significant Deficiency)
- 2010-15 Allowable Costs (Significant Deficiency)
- 2010-16 Procurement, Suspension, and Debarment (Significant Deficiency)
- 2010-18 Federal Grant Subrecipient Monitoring (Material Weakness) (Compliance)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS

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

Condition

The following deficiencies were noted during our testing of loan files:

- 3 of 25 loans tested did not have signed promissory notes in place prior to the loan being disbursed.
- 3 of 25 loans tested were not able to have accrued interest amounts verified due to system input errors.
- For 1 of 25 loan disbursements information was not available to determine that the loan was disbursed to the proper person or educational institution.
- Management was not able to adjust loan principal, accrued interest, loans forgiven, and the allowance for uncollectible loans accounts prior to the audit.

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. Accounting principles generally accepted in the United States of America (GAAP) require that loans receivable be recorded at net realizable value (fair market value). Interest should be accrued based on contractual rates and provisions and should be able to be distinguished from principal amounts. Documentation of all loan activity should be retained for legal and recordkeeping purposes.

Effect

Students may have been improperly issued loans and material adjustments were made by the auditors to properly state the referenced account balances.

Cause

Department staff became 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.

Recommendation

We recommend that the Department continue to reconcile each loan, and the current status, to the ECSI system and the general ledger throughout the year. 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

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

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding; It is important to note that the Financial Aid Director's position remains vacant since 2012, which has continued to limit the Division's ability to maintain the level of control necessary by not being fully staffed. The Division continues to work with the vendor (ESCI) to monitor loan activities; reconcile loan transactions to the general ledger, to ensure accountability of balances within the share system, and to ensure loan documents are accurate.

Point of Contact

Kevin Romero, Acting ASD Director

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

Condition

The Department did not have adequate controls in place to exercise effective oversight of the financial reporting process at the entity level during FY13. Financial accounting and reporting functions showed increased centralization and progress toward implemented controls during FY13, but were not in place for the entire fiscal year and continue to require emphasis and Department effort toward coordination between business processes.

In addition to the lack of controls which includes insufficient processes regarding the reconciliation of cash accounts, there was a lack of accurate financial reporting as detailed below:

- An adjustment to accounts receivable in the lottery fund of \$4,496,266 due to the Agency including May proceeds in the accrual when the May proceeds had been received prior to year-end.
- An adjustment of \$5,363,516 in the Lottery fund for revenue that was posted to a receivable account instead of an income account.
- An adjustment of \$864,365 to correct an audit entry that was posted to different accounts by DFA than what was reported in the prior year audit and was not corrected by management.
- Adjustments to capital projects expenditures, revenues, and related receivables and payables netting to approximately \$204,000 (see also finding 2010-05).
- An adjustment of \$48,900 for loan-for-service program funds recorded as revenue that should have instead offset expenditures.
- An adjustment of \$128,093 to correct the recording of a return of advanced private grant funding that was incorrectly recorded in prior years (should have been deferred revenue) and the return was recorded in reversion expense which was not the correct place to account for the transaction.
- A prior period adjustment for fee revenue collected in 2012 for 2013 that was not properly deferred.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

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

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 and can affect the Department's ability to accurately estimate budgetary needs for subsequent fiscal years.

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. Policies over records retention were not fully 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.

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. During FY 2013, HED experienced turnover in the key staff position of ASD Director twice, which limited the ability to reconcile and correct accounts as a result of additional duties being placed on staff. In addition, there was limited reconciliation of asset and liability accounts which resulted in items not being identified for correction prior to fiscal audit. To mitigate identified risks, HED will develop a "Proof of Cash" reconciliation spreadsheet in order to track inflows and outflows of cash as presented on the general ledger. In addition, HED will institute the process of performing quarterly reviews of asset and liability accounts. We believe these internal control procedures will mitigate the identified risks. It is important to note that although there is an "Acting ASD Director", the Division still lacks an "Appointed ASD Director" which continues to leaves the Division one employee short of being fully staffed.

Point of Contact

Kevin Romero, Acting ASD Director

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-05 Capital Projects Accounting and Reporting (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 FY13, resulting in a net overstatement of expenditures in the amount of \$574,567 (3 projects), and a net overstatement of revenues in the amount of \$503,336 (3 projects).
- Capital projects activity in Fund 89200 was not fully reconciled for FY13, resulting in a net overstatement of expenditures in the amount of \$191,404 (1 project), and a net overstatement of revenues in the amount of \$34,652 (1 project).

Criteria

The project funds expended in FY13 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). 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.

Effect

The capital projects were not properly tracked or reported by the Department and activity was materially misstated.

Cause

The Department is not following prescribed accounting methodology to properly record accrued revenue when a draw request is approved for expenditure and has inadequate procedures in place to track activity by project.

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.

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. During FY 2013, HED experienced turnover in the key staff position of ASD Director twice, which limited the ability for the Division to enter transactions in the timely basis required in order for revenues when properly incurred. In addition, the Division was not able to reconcile the Capital Project Fund in the timely manner required. The ASD Division will work with the Institutional Finance Division to ensure transactions are properly recorded and reconciliations are completed in a timely manner.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

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

Point of Contact

Kevin Romero, Acting ASD Director

2010-18 Federal Grant Subrecipient Monitoring (Compliance)

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)
CFDA Number: 84.334A
Period: 7/1/2012 – 6/30/2013**

**Funding Agency: U.S. Department of Education
Title: No Child Left Behind (NCLB)
CFDA Number: 84.367
Period: 7/1/2012 – 6/30/2013**

**Funding Agency: U.S. Department of Education
Title: Adult Basic Education (ABE)
CFDA Number: 84.002
Period: 7/1/2012 – 6/30/2013**

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-18 Federal Grant Subrecipient Monitoring (Compliance) – Continued

Condition

The Department failed to perform adequate sub-recipient monitoring of their sub-grantees during FY13 as detailed in the table below:

Tests Performed	Program	Population	Sample	No. of failures in sample
Controls				
Monitoring activities/file contains Notice of Award letter from HED and completed application from sub-grantee.	Gear-up	12	2	2
Sub-grant Agreement signed by the Cabinet Secretary and the Sub-grantee's authorized contract signor. Documents were received prior to disbursement of funds.	Gear-up	12	2	2
	ABE	26	3	3
Compliance				
HED obtained DUNS numbers for sub-recipients prior to issuance of the sub award.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED made sub-recipients aware of the award information (i.e. CFDA title and number, award name and number, and the name of the Federal awarding Agency) and requirements imposed by laws, regulations and provisions of contract or grant agreements. Atkinson scanned the Sub-grant Agreement to ensure all information listed above was included.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED monitored sub-recipients by requiring submission of required reports (annual progress report, reimbursement requests).	Gear-up	64	7	7
	NCLB	36	4	3
HED ensured that required sub-recipients audits were completed and the SEFA presentation included the sub-grant award.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED followed up to ensure corrective action on deficiencies regarding reports listed in previous attribute.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED issued management decisions on audit findings within 6 months after receipt of the sub-recipient's audit report and ensured that sub -recipients took appropriate and timely corrective action on all audit findings.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED took appropriate actions using sanctions in cases of continued inability or unwillingness of a sub-recipient to have the required audits and the effects of such noncompliance was properly documented.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-18 Federal Grant Subrecipient Monitoring (Compliance) – Continued

Criteria - Continued

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 and the Department is not in compliance with federal regulations with regard to its responsibilities for subrecipient monitoring. This can prevent the program from receiving funding in future periods. Financial aid eligibility is determined by each subrecipient, and non-compliance could potentially be the responsibility of the Department.

Cause

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

Recommendation

See Federal Award Finding 2010-18.

Views of Responsible Officials and Planned Corrective Action

See Federal Award Finding 2010-18.

Point of Contact

See Federal Award Finding 2010-18.

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, 2013. General ledger balances, including cash were not reconciled during the year. Certain cash balances are in an overdraft condition at June 30, 2013.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

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

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 FY13, 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 perform a quarterly closing of its trial balance to establish control over transactions and account balances.

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. During FY 2013, HED experienced turnover in the key staff position of ASD Director twice, which limited the ability to reconcile and correct accounts as a result of additional duties being placed on staff. In addition, there was limited reconciliation of asset and liability accounts which resulted in items not being identified for correction prior to fiscal audit. To mitigate identified risks, HED will develop a "Proof of Cash" reconciliation spreadsheet in order to track inflows and outflows of cash as presented on the general ledger. In addition, HED will institute the process of performing quarterly reviews of asset and liability accounts. We believe these internal control procedures will mitigate the identified risks. It is important to note that although there is an "Acting ASD Director", the Division still lacks an "Appointed ASD Director" which continues to leaves the Division one employee short of being fully staffed.

Point of Contact

Kevin Romero, Acting ASD Director

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINDING IN ACCORDANCE WITH 2.2.2 NMAC

2013-01 Late submission of Auditor Recommendation and Contract (Compliance)

Condition

The Department submitted its audit contract and auditor recommendation to the State Auditor after the statutory deadline.

Criteria

2.2.2.8(G)(6)(c) NMAC required that auditor recommendations and completed audit contracts for state agencies be submitted by June 1st.

Effect

The Department was not in compliance with state regulations for contracting the annual audit.

Cause

Administrative issues, including turnover in the Administrative Services Division Director, caused the recommendation and contract to be submitted after the deadline.

Recommendation

We recommend that the Department begins preparing the required submissions well in advance of the deadline to ensure that the required information is submitted correctly and timely.

Views of Responsible Officials and Planned Corrective Action

HED accepts the finding and will work to ensure that required submissions to the state auditor are performed timely.

Point of Contact

Kevin Romero, Acting ASD Director

FEDERAL AWARD FINDINGS

2010-13 Cash Management Controls (Significant Deficiency)

Funding Agency: U.S. Department of Education

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

CFDA Number: 84.334A

Period: 7/1/2012 – 6/30/2013

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, 2013

FEDERAL AWARD FINDINGS – CONTINUED

2010-13 Cash Management Controls (Significant Deficiency) – Continued

Funding Agency: U.S. Department of Education

Title: College Access Challenge Grants (CACG)

CFDA Number: 84.378A

Period: 7/1/2012 – 6/30/2013

Condition

The Department does not approve draw downs consistently. Of the 7 draw downs tested for these programs, 3 did not have the proper approvals prior to requesting the reimbursement (1 GEAR UP, 1 NCLB, and 1 CACG).

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.

Effect

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

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.

Recommendation

We recommend the Department obtain proper authorization for draw requests and approval procedures should be established and followed.

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. The ASD Director or designee will now approve all draw down requests prior to entering into the G5 system.

Point of Contact

Kevin Romero, Acting ASD Director

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FEDERAL AWARD FINDINGS – CONTINUED

2010-15 Allowable Costs (Significant Deficiency)

**Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)
CFDA Number: 84.334A
Period: 7/1/2012 – 6/30/2013**

**Funding Agency: U.S. Department of Education
Title: No Child Left Behind (NCLB)
CFDA Number: 84.367
Period: 7/1/2012 – 6/30/2013**

**Funding Agency: U.S. Department of Education
Title: Adult Basic Education (ABE)
CFDA Number: 84.002
Period: 7/1/2012 – 6/30/2013**

**Funding Agency: U.S. Department of Education
Title: College Access Challenge Grants (CACG)
CFDA Number: 84.378A
Period: 7/1/2012 – 6/30/2013**

Condition

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

- Semi-annual time certifications were not prepared for employees who charge 100% of their time to a Federal grant as follows:
 - GEAR UP – 4 of 4 employees tested
 - NCLB – 3 of 3 employees tested
 - ABE – 4 of 4 employees tested
 - CACG – 4 of 4 employees tested

Criteria

Per OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Effect

The Department did not ensure the proper control over Federal funds by proper certification of payroll disbursements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FEDERAL AWARD FINDINGS – CONTINUED

2010-15 Allowable Costs (Significant Deficiency) – Continued

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

None.

Recommendation

We recommend the Department develop and implement procedures to certify payroll data.

Views of Responsible Officials and Planned Corrective Action

HED is in agreement with this finding. In accordance with OMB Circular A-87 (Relocated to 2 CFR Part 225), "Support of Salaries and Wages", HED will develop semi -annual time and effort certification forms that will be utilized by all staff working under Federal Grants. Each grant work group (Gearup, NCLB, ABE, and CACG) will be required to submit the semi -annual certifications to the Administrative Services Department by December 31 and June30 of each year. Each certification form will require both the employee and supervisor's signature and will identify the time period being represented.

Point of Contact

Kevin Romero, Acting ASD Director

2010-16 Procurement, Suspension, and Debarment (Significant Deficiency)

Funding Agency: U.S. Department of Education

Title: Adult Basic Education (ABE)

CFDA Number: 84.002

Period: 7/1/2012 – 6/30/2013

Condition

We noted 1 of 1 professional services contracts tested that was charged to the ABE program in FY13, for 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, 2013

FEDERAL AWARD FINDINGS – CONTINUED

2010-16 Procurement, Suspension, and Debarment (Significant Deficiency) – 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 contract reviewed was not with an excluded party.

Cause

The Department did not maintain documentation to show their review of the vendor's status at sam.gov, prior to contracting with selected vendors.

Questioned Costs

None.

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. It is important to note that on September 17, 2012, the ASD Division provided procedures titled "Excluded Parties List" to all HED staff, which require staff to utilize the U.S. General Services Administration's "System for Award Management (SAM) website in order to verify the status of all vendors seeking to do business with the HED. Clarification of the established policy will occur by having each HED staff member sign an acknowledgement form on an annual basis to document and magnify the importance of this requirement.

Point of Contact

Kevin Romero, Acting ASD Director

2010-18 Federal Grant Subrecipient Monitoring (Material Weakness) (Compliance)

Funding Agency: U.S. Department of Education

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

CFDA Number: 84.334A

Period: 7/1/2012 – 6/30/2013

Funding Agency: U.S. Department of Education

Title: No Child Left Behind (NCLB)

CFDA Number: 84.367

Period: 7/1/2012 – 6/30/2013

Funding Agency: U.S. Department of Education

Title: Adult Basic Education (ABE)

CFDA Number: 84.002

Period: 7/1/2012 – 6/30/2013

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-18 Federal Grant Subrecipient Monitoring (Material Weakness) (Compliance) – Continued

Condition

The Department failed to perform adequate sub-recipient monitoring of their sub-grantees during FY13 as detailed in the table below:

Tests Performed	Program	Population	Sample	No. of failures in sample
Controls				
Monitoring activities/file contains Notice of Award letter from HED and completed application from sub-grantee.	Gear-up	12	2	2
Sub-grant Agreement signed by the Cabinet Secretary and the Sub-grantee's authorized contract signor. Documents were received prior to disbursement of funds.	Gear-up	12	2	2
	ABE	26	3	3
Compliance				
HED obtained DUNS numbers for sub-recipients prior to issuance of the sub award.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED made sub-recipients aware of the award information (i.e. CFDA title and number, award name and number, and the name of the Federal awarding Agency) and requirements imposed by laws, regulations and provisions of contract or grant agreements. Atkinson scanned the Sub-grant Agreement to ensure all information listed above was included.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED monitored sub-recipients by requiring submission of required reports (annual progress report, reimbursement requests).	Gear-up	64	7	7
	NCLB	36	4	3
HED ensured that required sub-recipients audits were completed and the SEFA presentation included the sub-grant award.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED followed up to ensure corrective action on deficiencies regarding reports listed in previous attribute.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED issued management decisions on audit findings within 6 months after receipt of the sub-recipient's audit report and ensured that sub -recipients took appropriate and timely corrective action on all audit findings.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3
HED took appropriate actions using sanctions in cases of continued inability or unwillingness of a sub-recipient to have the required audits and the effects of such noncompliance was properly documented.	Gear-up	12	2	2
	ABE	26	3	3
	NCLB	9	3	3

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-18 Federal Grant Subrecipient Monitoring (Material Weakness) (Compliance) – Continued

Criteria - Continued

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 and the Department is not in compliance with federal regulations with regard to its responsibilities for subrecipient monitoring. This can prevent the program from receiving funding in future periods. Financial aid eligibility is determined by each subrecipient, and non-compliance could potentially be the responsibility of the Department.

Cause

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

Views of Responsible Officials and Planned Corrective Action

HED accepts the finding; however upon review with program managers in regards to documentation identified within the finding, it was identified that such documentation does exist and was available for review but was not requested. There are processes which need review and adjustment to address the finding in regards to financial audit review and documentation. 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 and Institutional Auditor on September 28, 2013. The Institutional Finance Unit is responsible for follow up of all oversight reports from all institutions. 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.

Point of Contact

Kevin Romero, Acting ASD Director

State of New Mexico
Higher Education Department

PREPARATION OF FINANCIAL STATEMENTS AND EXIT CONFERENCE

Year Ended June 30, 2013

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 12, 2013 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

Kevin Romero, Acting Administrative Services Director (ASD)

Scott Eccles, Institutional Auditor

Vera Lyons, Accountant/Auditor

Atkinson & Co., Ltd.

Marty Mathisen, CPA, CGFM, Audit Director

Sarah Brack, CPA, CGFM, CGMA, Audit Manager

ATKINSON & CO. LTD.
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ALBUQUERQUE, NM
T 505 843 6492
F 505 843 6817

RIO RANCHO, NM
T 505 891 8111
F 505 891 9169

ATKINSONCPA.COM

