



Timothy Keller
State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR
Elected for Better Government

Sanjay Bhakta, CPA, CGFM, CFE
Deputy State Auditor

VIA EMAIL

February 4, 2015

Dr. Barbara Damron, Cabinet Secretary
C/O Vera Lyons, ASD
New Mexico Higher Education Department
Vera.lyons@state.nm.us

Dear Secretary Damron:

The Office of the State Auditor reviewed the audit of the Higher Education Department for Fiscal Year 2014. As part of our review, our team identified select matters and findings that we will refer for additional test work in the Fiscal Year 2015 audit, and which may lead to subsequent actions by our office.

We intend to require additional test work and to require specific details related to the auditor determination of whether the Department has implemented its proposed changes to internal controls in the timeframe identified in the audit related to the following:

- **Finding 2006-001**, identifying a material weakness related to a lack reconciliation and tracking mechanisms for Loan-for-Service Programs;
- **Finding 2010-001** identifying a material weakness due to inadequate controls to exercise effective oversight over the financial reporting process at the entity level; and
- **Finding 2010-005**, identifying a material weakness related to the Department not having procedures for recording or reconciling its Capital Project revenues and expenditures in the period in which the activity occurred.

We are also concerned that the single audit opinion for compliance with federal programs was qualified. Numerous repeat findings suggest that the corrective actions the Department says it is taking with respect to federal compliance are not having their intended effect. The Office is considering possible further action in this area. We invite the Department to provide any additional information on how it is working to mitigate and resolve the conditions of compliance findings in the FY2014 report. Please submit any response on these matters within 45 days of the date of this letter. If you have any questions about this letter, please contact our auditor Sara Specht at Sara.Specht@osa.state.nm.us or (505) 476-3800.

Sincerely,

A handwritten signature in black ink that reads "Timothy Keller".

Timothy Keller, State Auditor

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February 4, 2015

SAO Ref. No. 950

Dr. Barbara Damron, Cabinet Secretary
New Mexico Higher Education Department
2048 Galisteo Street
Santa Fe, NM 87505-

SUBJECT: Audit Report—New Mexico Higher Education Department—2013-2014 Fiscal Year—Prepared by Atkinson & Co., Ltd.

The audit report for your agency was received by the Office of the State Auditor (Office) on December 15, 2014. The State Auditor's review of the audit report required by Section 12-6-14 (B) NMSA 1978 and 2.2.2.13 NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's financial and compliance audit. In accordance with the Section 2 of the audit contract, the IPA is required to deliver the specified number of copies of the audit report to the agency.

Pursuant to Section 12-6-5 NMSA 1978, the audit report does not become public record until five days after the date of this release letter, unless your agency has already submitted a written waiver to the Office. Once the five-day period has expired or upon the Office's receipt of a written waiver, the audit report shall be:

- released by the Office to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer
- posted by the Office to our website

The independent public accountant's findings and comments are included in the audit report on pages 80-91. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments. Section 2.2.2.10(J) NMAC requires that an exit conference be held with representatives of the agency's governing authority and top management.**

A handwritten signature in cursive script that reads "Timothy Keller".

Timothy Keller
State Auditor

cc: Atkinson & Co., Ltd.



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

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

June 30, 2014

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico
Higher Education Department

OFFICIAL ROSTER

June 30, 2014

Administrative Officials

<u>Name</u>	<u>Title</u>
Dr. Jose Garcia	Cabinet Secretary
Glenn Walters	Deputy Cabinet Secretary
Gerald Hoehne	Acting Administrative Services Director/Capital Projects Auditor
Francis Bannowsky	Director of Adult Basic Education Program
Ron Spilman	Director of Institutional Finance/CFO (as of August 18, 2014)
Brigette Russell	Director of GEAR UP Program
Dina Advani	Director of Research & Planning
Vacant	Director of Financial Aid



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Dr. Jose Z. Garcia, Cabinet Secretary
State of New Mexico
Higher Education Department
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, the fiduciary funds, and the budgetary comparisons for the General Fund and Major Special Revenue Funds of the New Mexico Higher Education Department (the Department), as of and for the year ended June 30, 2014, 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 have also audited the financial statements of each of the Department's non-major governmental funds, and the budgetary comparisons of the non-major funds, presented as supplementary information, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2014, as listed in the table of contents.

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 audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information, and the fiduciary funds of the Department, as of June 30, 2014 and the respective changes in financial position and budgetary comparisons for the general fund and the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2014 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, 2014, 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. Our opinion was not modified for this matter.

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. Our opinion was not modified for this matter.

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 4 - 12 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.

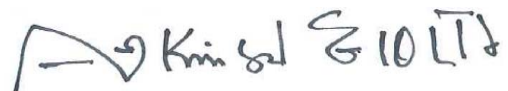
Other Information

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

The schedule of special appropriations and the schedule of expenditures of federal awards are 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 special appropriations and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, 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.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 15, 2014

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended June 30, 2014

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, 2014. 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.

Among its many duties, the Department is charged with the responsibility of financing state higher education institutions through the use of a funding formula. In the General Appropriations Act of 2011, the New Mexico legislature directed HED to overhaul the formula to shift from an input-based to an outcome-based approach. During 2011, HED personnel joined together with college and university stakeholders to develop a formula which rewarded institutions on their achievement of outcome based goals and provided funding stability for institutions. Through this process, HED produced a formula that met the standard of rewarding outcomes and was delivered with the support of the 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, 2014

Department-wide Financial Statement: The department-wide financial statements include 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 excepting 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, 2014. The residual of the difference in the value of the assets and the liabilities and deferred inflows is reflected as net position. 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 consists of 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 2014 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, 2014

Fiduciary Funds

Fiduciary funds are used to account for resources the Department holds for others. The Department oversees two fiduciary funds for the Endowed Merit Scholars and College Affordability funds. These two funds were created pursuant to Legislative Endowment Scholarship Act and College Affordability Endowment Act.

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 Statement 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. Actual expenditures are stated on the same basis as the budget amounts.

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, 2014

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

Financial Highlights

New Mexico Higher Education Department

- The Department has four (4) major funds.
 - The General Fund (SHARE Fund 91000) accounts for administration of HED. The other funds are primarily pass-through funds and are described in more detail in the financial statement footnotes.
 - The Financial Aid Fund (SHARE Fund 21600) accounts for all financial aid type programs.
 - The Lottery Tuition Fund (SHARE Fund 63700) accounts for all monies for distribution to New Mexico's public college educational institutions for tuition assistance for New Mexico's resident undergraduates.
 - The Capital Projects FY2011 Fund (SHARE Fund 89200) accounts for all capital project appropriations made to the Department for post-secondary educational institutions and special schools.
- 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.

Financial Analysis of the Department as a Whole

Net Position

The Department's Net Position at June 30, 2014 was approximately \$19 million. Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2014. Current Assets decreased by \$22,138 (000s) in FY14 due to payment from fund balance to account for decreased revenues in the New Mexico Lottery Tuition Fund as well as the impact of loan for service principal forgiveness on aged accounts and increased allowance for doubtful accounts related to such loans.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2014

Table A-1
Detail of Department Condensed Net Position as of June 30, 2014 and 2013 (thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 32,623	\$ 54,761	\$ (22,138)
Non-current assets	13,092	15,393	(2,301)
Capital assets, net of accumulated depreciation	<u>5</u>	<u>11</u>	<u>(6)</u>
Total assets	<u>45,720</u>	<u>70,165</u>	<u>(24,445)</u>
Liabilities:			
Current liabilities	26,445	33,946	(7,501)
Compensated absences	<u>141</u>	<u>116</u>	<u>25</u>
Total liabilities	<u>26,586</u>	<u>34,062</u>	<u>(7,476)</u>
Total assets less liabilities	<u>19,134</u>	<u>36,103</u>	<u>(16,969)</u>
Deferred inflows	50,000	54,899	(4,899)
Net Position:			
Investments in capital assets, net of debt	5	11	(6)
Restricted	19,334	36,154	(16,820)
Unrestricted	<u>(256)</u>	<u>(116)</u>	<u>(140)</u>
Total net position	<u>\$ 19,083</u>	<u>\$ 36,049</u>	<u>\$ (16,966)</u>

2013 was adjusted to report estimated deferred inflows for the prior year.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2014

Changes in Net Position

The Department's change in net position at June 30, 2014 was \$16.9 million. Table A-2 summarizes the Department's changes in net position for the fiscal year ended June 30, 2014. Education expenses increased by \$21.8 million in FY14 due significantly to the payment from fund balance in the Financial Aid Fund to account for decreased revenues in the New Mexico Lottery Fund as well as the reconciled amount for loans forgiven principal and increase in the allowance for doubtful accounts.

**Table A-2
Statement of Activities as of June 30, 2014 and 2013 (thousands)**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Program revenues:			
Program revenues	\$ 10,224	\$ 8,888	\$ 1,336
Total program revenues	10,224	8,888	1,336
General revenues (expenses):			
State appropriations	43,471	34,599	8,872
Other financing sources	4,295	2,349	1,946
Education expenses	(130,209)	(108,363)	(21,846)
Reversions	(1,430)	(741)	(689)
Proceeds of State General obligation and severance tax bonds	9,396	689	8,707
Proceeds from Lottery	46,603	43,685	2,918
Miscellaneous	48	(15)	63
Total general revenues (expenses)	(27,826)	(27,797)	(29)
Investment earnings	21	104	(83)
Interest on loans	617	2,818	(2,201)
Loans forgiven - Principal	-	(4,025) *	4,025
Total other investment income (expenses)	638	(1,103)	1,741
Change in net position	(16,964)	(20,012)	3,048
Net position, beginning	36,049	56,061	(20,012)
Net position, ending	<u>\$ 19,085</u>	<u>\$ 36,049</u>	<u>\$ (16,964)</u>

* Loans forgiven – principal of \$2,431,086 is included in the Education Expenses line item in FY14.

HED's change in net position decreased by \$3 million between years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2014

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.

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.

The State General Fund budgeted revenues are reflective of an overall 4.1 percent increase over FY 2013. The recent recession hit the state later than other states and now the recovery continues a path of slow, but sustained growth. The increase in HED budgeted amounts reflected the legislative prioritization of programs that focus on economic development and science, technology, engineering, and math (STEM) outreach along with an increase in employee compensation.

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 budgeted for FY14 due to high vacancy rate (as illustrated in Personal services), a decrease in contracts awarded and federal programs not fully utilizing appropriated budget during the fiscal year.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2014

	Final Budget	Actual Amount
Personal services and employee benefits	\$ 3,435	\$ 3,024
Contractual services	3,093	1,139
Other	23,942	21,345
Total education	\$ 30,470	\$ 25,508

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	36,935	35,739
Total education	\$ 36,989	\$ 35,739

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.

	Final Budget	Actual Amount
Other costs	\$ 63,138	\$ 55,819
Total education	\$ 63,138	\$ 55,819

HED's Capital Projects Fund FY2011 (SHARE Fund 89200) accounts for all capital project appropriations to New Mexico's public college educational institutions for construction and other long-term asset acquisition projects. The expenditures by category on a multi-year budgetary basis are shown below.

	Final Budget	Actual Amount
Other costs	\$ 33,842	\$ 8,885
Total education	\$ 33,842	\$ 8,885

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2014

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 2015 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.

Future Events That Will Financially Impact the Department

Budgetary Events: New Mexico through energy taxes and royalties has been the beneficiary of the renaissance in oil and gas production in the state. Although the December 2014 Consensus Revenue Estimates for the State of New Mexico indicated an upward trend in revenue, largely due to strength in oil and gas receipts and growth in personal income tax this may prove optimistic given the recent decline in oil prices.

Cash Balances: In June 2012, an independent diagnostic report revealed that the General Fund Investment Pool general ledger balances had not been reconciled to Pooled Fund Investments maintained at the State Treasurer's Office (STO) since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) system in July of 2006. Since then, the Department of Finance and Administration (DFA) has taken, and continues to take aggressive action towards resolution.

Phase I of the Cash Management Remediation Project was completed in 2013 and included the implementation of statewide business process and SHARE system configurations changes. As a result reconciliation between the SHARE general ledger and the state's fiscal agent bank has been performed on a point-forward basis beginning February 2013. However, since the Department's cash balances include carry-forward amounts associated with transactions occurring prior to February 2013, a portion of reported balance has not been reconciled to accounts maintained at the STO. Thus, a comprehensive independent, third-party verification/confirmation of the New Mexico Higher Education Department cash balances is not possible. We believe the impact on the Department to be minimal as deficiencies between aggregated Agency claims on cash and accounts maintained at the STO is expected to be adjusted at the state-level and made up from state's operating reserve fund.

Contact Information
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State of New Mexico
Higher Education Department

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities
ASSETS	
Investment in State Treasurer General Fund Investment Pool	\$ 19,890,250
Due from other funds - fiduciary fund	2,000,000
Due from other state agencies	4,588,979
Due from federal government	2,485,609
Accounts receivable	3,657,429
Prepaid expenses	570
Total current assets	32,622,837
Loans and interest receivable, net of allowance for doubtful accounts of \$7,236,262	13,091,893
Capital assets	63,420
Less: accumulated depreciation	(58,773)
Total assets	\$ 45,719,377
LIABILITIES, DEFERRED INFLOWS AND NET POSITION	
Current Liabilities	
Accounts payable	\$ 5,347,625
Investment in State Treasurer General Fund Investment Pool overdraft	17,514,008
Accrued salaries and benefits payable	82,480
Due to State General Fund	1,429,991
Due to local governments	2,003,481
Due to other state agencies	23,269
Due to federal government	35,000
Compensated absences due within one year	141,478
Unearned revenue	6,750
Other liabilities	2,267
Total current liabilities	26,586,349
Total liabilities	26,586,349
Deferred Inflows	50,000
Net Position	
Net investment in capital assets	4,647
Restricted	19,334,319
Unrestricted deficit	(255,938)
Total net position	19,083,028
Total liabilities, deferred inflows, and net position	\$ 45,719,377

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, 2014

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Governmental Activities
Governmental activities				
General government	\$ (24,851,112)	\$ -	\$ -	\$ (24,851,112)
Depreciation	(4,334)	-	-	(4,334)
Program activities				
General government				
Adult Basic Education	(3,666,299)	-	3,666,299	-
GEAR-UP	(4,561,106)	-	4,561,106	-
GEAR-UP Depreciation	(1,815)	-	-	(1,815)
College Access Challenge	(744,212)	-	744,212	-
No Child Left Behind	(573,176)	-	573,176	-
Race to the Top Assessment (PARCC)	(21,540)	-	21,540	-
Financial aid programs	(35,739,041)	-	190,677	(35,548,364)
Lottery scholarships	(55,819,163)	-	6,731	(55,812,432)
Other funds	(4,227,027)	459,812	-	(3,767,215)
	<u>\$ (130,208,825)</u>	<u>\$ 459,812</u>	<u>\$ 9,763,741</u>	<u>(119,985,272)</u>
General revenues (expenses)				
State General Fund appropriations				43,470,500
Bond proceeds				9,395,921
Lottery proceeds				46,602,505
Other financing sources				4,294,900
Reversion to State General Fund				(1,429,991)
Miscellaneous revenue				47,740
				<u>102,381,575</u>
Investment income				
Investment earnings				20,770
Interest on loans				617,185
				<u>637,955</u>
Change in net position				<u>(16,965,742)</u>
Net position, beginning				<u>36,048,770</u>
Net position, ending				<u>\$ 19,083,028</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, 2014

	91000 General Fund	21600 Financial Aid	63700 Lottery Tuition	89200 Capital Projects FY2011
ASSETS				
Interest in State Treasurer General Fund Investment Pool	\$ 8,929,364	\$ -	\$ 9,076,738	\$ 94,631
Due from other funds - fiduciary fund	-	-	-	-
Due from other state agencies	-	500,000	582	3,862,078
Due from federal government	2,334,357	151,252	-	-
Accounts receivable	-	118,164	3,448,765	-
Prepaid expenses	570	-	-	-
	11,264,291	769,416	12,526,085	3,956,709
Non-current assets:				
Loans and interest receivable, net of allowance for doubtful accounts	-	13,091,893	-	-
	\$ 11,264,291	\$ 13,861,309	\$ 12,526,085	\$ 3,956,709
LIABILITIES				
Accounts payable	\$ 2,991,902	\$ 183,019	\$ -	\$ 3,956,709
Interest in State Treasurer General Fund Investment Pool overdraft	6,742,151	9,825,003	-	-
Accrued payroll and benefits payable	76,408	-	-	-
Unearned revenue	-	6,750	-	-
Due to other funds	-	-	-	-
Due to the State General Fund	1,429,991	-	-	-
Due to other state agencies	23,269	-	-	-
	11,263,721	10,014,772	-	3,956,709
DEFERRED INFLOWS	-	-	-	-
FUND BALANCES				
Non-Spendable				
Prepaid expenses	570	-	-	-
Spendable				
Restricted	-	3,846,537	12,526,085	-
Unassigned	-	-	-	-
	570	3,846,537	12,526,085	-
Total fund balances	570	3,846,537	12,526,085	-
Total liabilities, deferred inflows, and fund balance	\$ 11,264,291	\$ 13,861,309	\$ 12,526,085	\$ 3,956,709

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

Other Governmental Funds	Total Governmental Funds
\$ 1,789,517	\$ 19,890,250
2,000,000	2,000,000
226,319	4,588,979
-	2,485,609
90,500	3,657,429
-	570
4,106,336	32,622,837
-	13,091,893
\$ 4,106,336	\$ 45,714,730
\$ 221,743	\$ 7,353,373
946,854	17,514,008
6,072	82,480
-	6,750
35,000	35,000
-	1,429,991
-	23,269
1,209,669	26,444,871
50,000	50,000
-	570
2,961,697	19,334,319
(115,030)	(115,030)
2,846,667	19,219,859
\$ 4,106,336	\$ 45,714,730

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, 2014

Total fund balance for the governmental fund (Balance Sheet)	\$ 19,219,859
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>(58,773)</u>
	4,647
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>(141,478)</u>
Net position of governmental activities (Statement of Net Position)	<u>\$ 19,083,028</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, 2014

	91000 General Fund	21600 Financial Aid	63700 Lottery Tuition
Revenues			
Federal grants	\$ 9,566,332	\$ 190,677	\$ -
Other licenses and permits	-	-	-
Other grants	-	-	6,731
Interest on investments	-	(854)	19,139
Interest on loans	-	617,185	-
Miscellaneous revenue	9,797	30,859	6,470
Total revenues	9,576,129	837,867	32,340
Expenditures			
Current:			
Personal services and employee benefits	3,023,925	-	-
Contractual services	1,139,188	-	-
Other	21,344,525	35,739,041	55,819,163
Total expenditures	25,507,638	35,739,041	55,819,163
Excess (deficiency) of revenues over expenditures	(15,931,509)	(34,901,174)	(55,786,823)
Other Financing Sources (Uses)			
State General Fund appropriations	17,343,900	21,976,600	2,900,000
Bond proceeds appropriations	-	-	-
Lottery proceeds	-	-	46,602,505
Other financing sources	17,600	-	-
Reversion to State General Fund	(1,429,991)	-	-
Total other financing sources (uses)	15,931,509	21,976,600	49,502,505
Change in fund balances	-	(12,924,574)	(6,284,318)
Fund balances, beginning	570	16,771,111	18,810,403
Fund balances, ending	\$ 570	\$ 3,846,537	\$ 12,526,085

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

89200 Capital Projects FY2011	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 9,757,009
-	459,812	459,812
-	-	6,731
-	2,485	20,770
-	-	617,185
-	615	47,741
-	462,912	10,909,248
-	173,156	3,197,081
-	12,319	1,151,507
8,884,613	4,041,552	125,828,894
8,884,613	4,227,027	130,177,482
(8,884,613)	(3,764,115)	(119,268,234)
-	1,250,000	43,470,500
8,884,613	511,308	9,395,921
-	-	46,602,505
-	4,277,300	4,294,900
-	-	(1,429,991)
8,884,613	6,038,608	102,333,835
-	2,274,493	(16,934,399)
-	572,174	36,154,258
\$ -	\$ 2,846,667	\$ 19,219,859

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

State of New Mexico
Higher Education Department

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

For the Year Ended June 30, 2014

Net change in fund balance - Total Governmental Funds \$ (16,934,399)
(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>(6,149)</u>	(6,149)

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>(25,194)</u>
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Change in net position of governmental activities (Statement of Activities)	<u><u>\$ (16,965,742)</u></u>
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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, 2014

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
Federal sources	\$ 9,925,000	\$ 13,108,825	\$ 9,566,332	\$ (3,542,493)
Miscellaneous	-	-	9,797	9,797
Total budgeted revenues	9,925,000	13,108,825	9,576,129	(3,532,696)
Expenditures				
Personal services and benefits	3,651,500	3,435,014	3,023,925	411,089
Contract services	2,318,100	3,093,100	1,139,188	1,953,912
Other costs	21,316,900	23,942,211	21,344,525	2,597,686
Total budgeted expenditures	27,286,500	30,470,325	25,507,638	4,962,687
Excess (deficiency) of revenue over expenditures	(17,361,500)	(17,361,500)	(15,931,509)	(8,495,383)
Other financing sources (uses)				
General fund appropriations	17,343,900	17,343,900	17,343,900	-
Other financing sources	17,600	17,600	17,600	-
Other financing (uses)	-	-	-	-
Reversions	-	-	(1,429,991)	(1,429,991)
Net change in fund balance	\$ -	\$ -	\$ -	\$ (9,925,374)

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, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal sources	\$ 250,000	\$ 250,000	\$ 190,677	\$ (59,323)
Other grants	1,500,000	1,505,037	-	(1,505,037)
Interest on investments	109,400	109,400	(854)	(110,254)
Interest on loans	1,098,700	1,098,700	617,185	(481,515)
Miscellaneous revenue	8,000	8,000	30,859	22,859
Total revenues	2,966,100	2,971,137	837,867	(2,133,270)
Prior year fund balance budgeted	-	12,040,800		
Total budgeted revenues	2,966,100	15,011,937		
Expenditures				
Contractual services	53,500	53,500	-	53,500
Other costs	24,889,200	36,935,037	35,739,041	1,195,996
Total budgeted expenditures	24,942,700	36,988,537	35,739,041	1,249,496
Excess (deficiency) of revenue over expenditures	(21,976,600)	(21,976,600)	(34,901,174)	(3,382,766)
Other financing sources (uses)				
State General Fund appropriations	21,976,600	21,976,600	21,976,600	-
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$(12,924,574)	\$ (3,382,766)

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, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 19,139	\$ 19,139
Other grants	-	-	6,731	6,731
Miscellaneous revenue	42,237,800	42,237,800	46,608,975	4,371,175
Total revenues	42,237,800	42,237,800	46,634,845	4,397,045
Prior year fund balance budgeted	18,000,000	18,000,000		
Total budgeted revenues	60,237,800	60,237,800		
Expenditures				
Other costs	63,137,800	63,137,800	55,819,163	7,318,637
Total budgeted expenditures	63,137,800	63,137,800	55,819,163	7,318,637
Excess (deficiency) of revenue over expenditures	(2,900,000)	(2,900,000)	(9,184,318)	(2,921,592)
Other financing sources (uses)				
State General Fund appropriations	2,900,000	2,900,000	2,900,000	-
Net change in fund balance	\$ -	\$ -	\$ (6,284,318)	\$ (2,921,592)

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 (MULTI-YEAR) – MAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUND FY2011 (FUND 89200)**

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Severance tax bond appropriations	\$ 9,041,550	\$ 9,041,550	\$ 4,363,987	\$ (4,677,563)
General obligation bond appropriations	24,800,000	24,800,000	4,520,626	(20,279,374)
Total budgeted revenues	33,841,550	33,841,550	8,884,613	(24,956,937)
Expenditures				
Other costs	33,841,550	33,841,550	8,884,613	24,956,937
Total budgeted expenditures	33,841,550	33,841,550	8,884,613	24,956,937
Excess (deficiency) of revenue over expenditures	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ -	\$ -

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 FIDUCIARY NET POSITION

June 30, 2014

	<u>88100</u>	<u>23900</u>	<u>Total</u>
	Endowed Merit Scholars Private-Purpose Trust Fund	College Affordability Endowment Trust Fund	Trust Fund
ASSETS			
Interest in State Treasurer General Fund Investment Pool	\$ 2,179,222	\$ -	\$ 2,179,222
Long-term investments	-	26,769,371	26,769,371
	<hr/>	<hr/>	<hr/>
Total assets	2,179,222	26,769,371	28,948,593
LIABILITIES			
Interest in State Treasurer General Fund Investment Pool overdraft	-	14,074,200	14,074,200
Due to other funds	-	2,000,000	2,000,000
	<hr/>	<hr/>	<hr/>
Total liabilities	-	16,074,200	16,074,200
NET POSITION			
Assets held for others			
In-trust for scholarships	\$ 2,179,222	\$ 10,695,171	\$ 12,874,393
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, 2014

	88100 Endowed Merit Scholars Private-Purpose Trust Fund	23900 College Affordability Endowment Trust Fund	Total Trust Fund
ADDITIONS			
Interest from investments	\$ -	\$ 359,014	\$ 359,014
Unrealized gain on investments	-	4,572,508	4,572,508
Total additions	-	4,931,522	4,931,522
DEDUCTIONS			
Professional investment fees	-	72,217	72,217
Distributions in accordance with trust agreements	-	4,000,000	4,000,000
Total deductions	-	4,072,217	4,072,217
CHANGE IN NET POSITION	-	859,305	859,305
Net position, beginning	2,179,222	9,835,866	12,015,088
Net position, ending	<u>\$ 2,179,222</u>	<u>\$ 10,695,171</u>	<u>\$ 12,874,393</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 Department's significant accounting policies are described below:

1. Reporting Entity and Component Units

A primary government is any state government or general purpose local government, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Department, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the state. The Chief Executive Officer of the Department is the Cabinet Secretary, who is appointed by the Governor and confirmed by the State Senate. These financial statements include all funds, programs, and activities over which the Cabinet Secretary has direct oversight responsibility.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Reporting Entity and Component Units – Continued

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. The Department has no component units.

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.

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 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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 that are restricted to meeting the operational or capital requirements of a particular program. State General Fund appropriations, including appropriated bond proceeds and investment earnings, are not classified as program revenues, but are presented as other financing sources. Provisions for bad debt 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 three special revenue funds and one general fund presented as major funds as follows:

- a) General Fund, SHARE #91000
- b) Financial Aid Fund, SHARE #21600
- c) Lottery Tuition Fund, SHARE #63700
- d) Capital Projects FY2011 Fund, SHARE #89200

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

The 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

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.

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

- 10990 ABE Instructional Material Fund
- 21600 Financial Aid Fund
- 21700 College Affordability Scholarship Fund
- 29200 College Goal Sunday Grant
- 34400 Post-Secondary Educational Institution Fund
- 47900 Faculty Endowment Fund
- 54500 Higher Education Performance Fund
- 63700 Lottery Tuition Fund
- 64400 Capital Projects
- 78200 Program Development & Enhancement Fund
- 88100 Legislative Endowment Scholarship Fund
- 89000 American Recovery and Reinvestment Act Fund
- 89200 Capital Projects Fund (FY2011)

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basic Financial Statements – Fund Financial Statements – Continued

FIDUCIARY FUND TYPES

Endowed Merit Scholars Private-Purpose Trust Fund (SHARE Fund 88100, Dept. # 4000) and College Affordability Endowment Trust Fund (SHARE Fund 23900) 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 funds 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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Basis of Accounting – Continued

The **government-wide financial statements** are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. 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 of resources for the year ended June 30, 2014. Deferred inflows of resources for the year ended June 30, 2014 amounted to \$50,000 and consist of private college licensing and registration fees collected for the subsequent year's operations.

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.

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).

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Budget and Budgetary Accounting – Continued

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.
- g) Per the General Appropriation Act of 2006, Chapter 28, Section 3, Item O, "For the purpose of administering the General Appropriation Act of 2008 and approving operating budgets, the State of New Mexico shall follow the Modified Accrual Basis of accounting for governmental funds in accordance with the manual of Model Accounting Practices issued by the Department of Finance & Administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. The actual expenditures in the budgetary comparison exclude any accounts payable that were not paid timely and therefore required a "Request to Pay Prior Year Bills" out of current year budget. They will be paid out of the budget of the following fiscal year. An agency's reversions should be calculated using the budget basis expenditures because the agency does not have the legal right to keep the cash related to accounts payable that were not paid timely. This could result in a negative fund balance in the modified accrual basis financial statements of a reverting fund. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Budget and Budgetary Accounting – Continued

In accordance with the requirements of Section 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 statements 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 SGFIP.

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.

10. 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.

11. 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Accrued Compensated Absences – Continued

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 rates ranging from 3.08 to 6.15 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 at the employee's request. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement employees with over 600 hours accumulated sick leave have the option to convert 400 hours of sick leave to cash at one half of their hourly rate.

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

12. Federal Grants Receivable and Unearned 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, unearned revenue balances represent draws of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or unearned 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.

13. Bond Proceeds

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2014, 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 \$19,219,289 as of June 30, 2014.

Fund 64400, Capital Projects, has a 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.

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, 2014.

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 has no assigned fund balances as of June 30, 2014.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Fund Balances – Continued

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, 2014.

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 – 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 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 \$19,219,289 which represents all restricted Net Position reported in the Statement of Net Position.

Unrestricted – consists of Net Position that does 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Use of Estimates - Continued

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

1. Cash

Included in cash is \$2,376,242 (net of overdrafts) 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.

The Department is not permitted to have and did not have any investments of its own during the year ended June 30, 2014. 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, 2014, 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 presented as a Fiduciary Fund.

The Department has entered into custodial agreements with the above financial institutions and the New Mexico State Treasurer. According to this agreement, the State Treasurer is responsible for approving all changes in the pledged collateral, monitoring the collateral requirements, and ensuring that all collateral meets the requirements of State law. As of June 30, 2014, 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, 2014

NOTE C – CASH AND INVESTMENTS – CONTINUED

1. Cash – Continued

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

SHARE Fund No.	Fund/Program	State Treasurer Balance	Outstanding Warrants	Reconciled Balance
91000	General Fund	\$ 2,187,213	\$ -	\$ 2,187,213
10990	ABE Instructional Materials	23,550	-	23,550
21600	Student Financial Aid	(9,825,003)	-	(9,825,003)
21700	College Affordability Scholarship	(809,823)	-	(809,823)
23900	College Affordability Endowment	(14,074,200)	-	(14,074,200)
29200	College Goal Sunday Grant Fund	8,507	-	8,507
34400	Post-Secondary Education Institution Fund	777,365	-	777,365
47900	Faculty Endowment Fund	83,157	-	83,157
54500	Performance Fund	2,075	-	2,075
63700	Lottery Tuition Fund	9,076,738	-	9,076,738
64400	Capital Projects	(137,031)	-	(137,031)
78200	Performance Development Fund	139,323	-	139,323
88100	Legislative Endowment Scholarship	2,899,762	-	2,899,762
89000	ARRA Fund	35,000	-	35,000
89200	Capital Projects FY2011	94,631	-	94,631
		<u>\$ (9,518,736)</u>	<u>\$ -</u>	<u>(9,518,736)</u>
Less:				
88100	Legislative Endowment Scholarship Non-expendable Trust Fund included above			(2,179,222)
23900	College Affordability Endowment			<u>14,074,200</u>
	Total expendable cash			<u>\$ 2,376,242</u>
Non-expendable Trust Fund:				
88100	Legislative Endowment Scholarship Non-expendable Trust Fund included above			\$ 2,179,222
23900	College Affordability Endowment			<u>(14,074,200)</u>
	Total non-expendable cash (overdraft)			<u>\$ (11,894,978)</u>
Reconciliation to Statement of Net Position:				
	Cash and investments			\$ 19,890,250
	Less: overdraft			<u>(17,514,008)</u>
	Total expendable cash			<u>\$ 2,376,242</u>

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE C – CASH AND INVESTMENTS – CONTINUED

2. Investments

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 and held by the College Affordability Trust Fund are as follows at June 30, 2014:

	Fair Value
Core Bonds Pool	\$ 4,356,382
Large Cap Activity Pool	7,784,751
Large Cap Index Pool	8,084,359
Mid/Small Cap Pool	602,303
Non US Developed Markets Pool	1,427,509
Non US Emerging Markets Pool	4,514,067
	<hr/>
Total long-term investments	\$ 26,769,371

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.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE D – RECEIVABLES

1. Due from Other Funds

Total amounts that are due from other funds are as follows:

	<u>Due to Other Funds</u>
	23900
	College Affordability Endowment Trust Fund
<u>Due From Other Funds - Fiduciary Funds</u>	
21700 College Affordability Scholarship Fund	\$ 2,000,000
Total	\$ 2,000,000

2. Due from Other State Agencies

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

SHARE Fund No.	Fund	Description	Amount	Due From
64400	Capital Projects	Bond proceeds	\$ 226,081	New Mexico Board of Finance
89200	Capital Projects FY2011	Bond proceeds	3,862,078	New Mexico Board of Finance
63700	Lottery Tuition	Lottery proceeds	3,448,765	NM Lottery Authority
21600	Financial Aid	Grant proceeds	500,000	NM State Treasurer's Office
63700	Lottery Tuition	Accrued investment interest	582	NM State Treasurer's Office
29200	College Goal Sunday Grant	Accrued investment interest	1	NM State Treasurer's Office
47900	Faculty Endowment	Accrued investment interest	6	NM State Treasurer's Office
78200	Development Enhancement	Accrued investment interest	10	NM State Treasurer's Office
88100	Endowed Merit	Accrued investment interest	221	NM State Treasurer's Office
		Total Due from Other State Agencies	\$ 8,037,744	

Amounts due from the NM Lottery Authority in the lottery tuition fund are presented as Accounts Receivable in the financial statements.

3. Accounts Receivable

Accounts receivable other than amounts due from the NM Lottery Authority consist of \$90,500 of unpaid license and registration fees due from private and proprietary schools operating in the state in Fund 34400 and \$118,164 of loan principal and interest payments not received from the servicer by year-end in Fund 21600.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE D – RECEIVABLES – CONTINUED

4. 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	Description	Amount	Due From
91000	General Fund	Federal grant receivables	\$ 2,334,357	U.S. Department of Education
21600	Financial Aid	Federal grant receivables	<u>151,252</u>	U.S. Department of Health and Human Services
Total Due from Federal Government			<u>\$ 2,485,609</u>	

5. Loans and Interest Receivable

Loans and interest receivable reported in the financial statements consist of loans made under the state’s loan-for-service programs and interest accrued on loans in default (i.e. service obligation was not met in full).

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). Loans forgiven amounted to \$2,431,086 for the year ended June 30, 2014.

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 in the amount of \$7,236,262. The allowance of \$7,236,262 consists of principal of \$3,111,262 and interest of \$4,125,000. Bad debt expense related to such loans amounted to \$2,763,043 which consists of principal of \$1,457,077 and interest of \$1,305,966 for the year ended June 30, 2014.

Interest income related to such loans amounted to \$617,185 for the year ended June 30, 2014, of which \$49,467 was received during the year. 97% of uncollected interest income is included in the allowance for doubtful accounts.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE E – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2014, is as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets:				
Equipment and machinery	\$ 63,420	\$ -	\$ -	\$ 63,420
Total at historical cost	63,420	-	-	63,420
Less accumulated depreciation:				
Equipment and machinery	52,624	6,149	-	58,773
Total accumulated depreciation	52,624	6,149	-	58,773
Capital assets, net	<u>\$ 10,796</u>	<u>\$ (6,149)</u>	<u>\$ -</u>	<u>\$ 4,647</u>

Depreciation expense was charged to function as follows:

GEAR UP program	\$ (1,815)
General government	<u>(4,334)</u>
Total depreciation	<u>\$ (6,149)</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, 2014. The General Fund liquidates compensated absences liabilities.

A summary of changes in the compensated absences payable for the year ended June 30, 2014, is as follows:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amount Due Within One Year
Compensated absences payable					
General Fund	\$ 116,284	\$ 95,576	\$ (70,382)	\$ 141,478	\$ 141,478

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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

1. Due to Other Agencies

SHARE Fund No.	Fund	Description	Amount	Due To
91000	General Fund	Reimburse shared employee payroll (FY12)	\$ 23,269	Education Trust Board of NM

2. Due to 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, 2014. 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 amount due to the State General Fund at June 30, 2014:

Year ended June 30	Reversion Amount
2014	\$ 1,429,991
Total reversions	<u>\$ 1,429,991</u>

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, 2014 were \$351,536.

Future minimum payments under these operating leases are as follows:

Year ended June 30	Amount
2015	\$ 327,051
2016	294,568
2017	269,251
2018	270,745
2019	204,492
	<u>\$ 1,366,107</u>

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE I – OTHER FINANCING SOURCES/USES AND TRANSFERS

1. Other Financing Sources/Uses

Fund No.	Fund Name/Description	Financing Sources	Financing Uses
91000	General Fund Transfer to State General Fund for FY 2014 reversions	\$ -	\$ 1,429,991
21700	College Affordability Scholarship Transfer in from College Affordability Trust Fund	4,000,000	-
	Total	<u>\$ 4,000,000</u>	<u>\$ 1,429,991</u>

2. Inter-Agency Transfers

State Agency/ Agency Fund	Agency Number	Fund Number	Purpose	91000 General Fund	21600 Financial Aid	78200 Program Development & Enhancement	63700 Lottery Tuition	89200 Capital Projects FY2011	64400 Capital Projects	10990 ABE Instructional Materials	Total
Department of Finance and Administration	34100	85300	State General Fund appropriation	\$ 17,343,900	\$ 21,976,600	\$ 1,250,000	\$ -	\$ -	\$ -	\$ -	\$ 40,570,500
Department of Finance and Administration	34100	85300	State General Fund compensation adjustment	17,600	-	-	-	-	-	-	17,600
Department of Finance and Administration	34100	85300	Special appropriation for Lottery scholarships	-	-	-	2,900,000	-	-	-	2,900,000
State Investment Council	33700	95200	25% of Tobacco Settlement Permanent Fund distribution for Lottery scholarships	-	-	-	5,281,000	-	-	-	5,281,000
Public Education Department	92400	85600	Funds for Adult Basic Education scholarships	-	-	-	-	-	-	277,300	277,300
NM Lottery Authority	81100	63700	Lottery proceeds for scholarships	-	-	-	41,321,505	-	-	-	41,321,505
State Board of Finance	34103	85300	Bond proceeds appropriation	-	-	-	-	8,884,613	511,308	-	9,395,921
				<u>\$ 17,361,500</u>	<u>\$ 21,976,600</u>	<u>\$ 1,250,000</u>	<u>\$ 49,502,505</u>	<u>\$ 8,884,613</u>	<u>\$ 511,308</u>	<u>\$ 277,300</u>	<u>\$ 99,763,826</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE J – PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

Funding Policy – Plan members are required to contribute 7.42 to 8.92 percent of their gross salary. The Department is required to contribute 16.59 percent of the gross covered salary. The contribution requirements of plan members and the Department are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the years ended June 30, 2014, 2013, and 2012, were \$375,533, \$278,664, and \$247,518, respectively, which equal the amount of the required contributions for each year.

NOTE K – 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

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

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 not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, 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, 2014, 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, 2014, 2013, and 2012, were \$45,640, \$36,960, and \$34,303, respectively, which equal the required contributions for each year.

NOTE L – 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE M – 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.

NOTE N – 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.

Phase I of the Cash Management Remediation Project (completed in May 2013) implemented statewide business process changes and corrected numerous SHARE System configurations. As a result of the changes and corrections, DFA/FCD was able to begin reconciling activity reported by the state's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. However, additional critical business process changes and corrections to configurations within the SHARE System remain to be completed; therefore, Cash Management Remediation Project, Phase II, commenced July 2014. Its scope was to perform reconciliations from July 2000 to January 2013. It is not completed as of November 2014.

DFA has 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 has not been changed to date. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE N – GENERAL FUND INVESTMENT POOL NOT RECONCILED – CONTINUED

HED has reconciled cash activity for the year by fund, including beginning balances, and it is the expectation that any future adjustments to cash will be retained at the state-level operating cash account. HED aggregate cash balances can be relied upon at June 30, 2014.

NOTE O – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 15, 2014, 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 P – NEW ACCOUNTING STANDARDS

Governmental Accounting Standards Board Statement No. 65, *Items previously Reported as Assets and Liabilities* (GASB 65), changes the classification of various financial statement balance sheet items including several more common types of transactions from presentation as assets and liabilities to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after November 25, 2012. The Department implemented this standard this fiscal year. There were no deferred outflows to separately report at June 30, 2014. Deferred inflows are appropriately reported on the Balance Sheet and Statement of Net Position.

Governmental Accounting Standards 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 the government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements including multiemployer cost sharing plans. 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 standard will be implemented in FY 2015. The current status of the unfunded liability for PERA is \$4.62 billion based on the most recently issued audited financial statement at June 30, 2013. Legislation was passed in 2012 changing PERA's plan benefits design and contribution requirements to fully fund UAAL within 30 years. The Department will be recording a material liability for the year ended June 30, 2015 for pension participation.

Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "government combinations" includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment and requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. The Department does not anticipate an impact on its financial statements related to this standard.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE P – NEW ACCOUNTING STANDARDS – CONTINUED

Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, requires a government employer to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability required to be recorded as a result of the implementation of GASB 68. GASB 68 requires employers to record contributions made to a defined pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period as a deferred outflow of resources. The requirements of this statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68 in the accrual-basis financial statements of employers. The requirements of this statement are required to be applied simultaneously with the provisions of GASB 68.

SUPPLEMENTARY INFORMATION

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS

June 30, 2014

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. This is a reverting fund pursuant to the annual State General Appropriation Act.

The General Fund is also used to account for Adult Basic Education program activities (SHARE Dept. #'s 2000, 2010, 2030, 2040, 2050, 2060, and 2070) which relate to the funding of adult basic education programs. Any unexpended or unencumbered balance remaining in the fund at the end of each fiscal year shall revert to State General Fund per Section 21-1-27.5 NMSA 1978.

Special Revenue Funds

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 departments:

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, 2014

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, 2014

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.

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2014

Special Revenue Funds – Continued

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.

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.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2014

Special Revenue Funds – Continued

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 funds 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.

Capital Projects FY2011 (SHARE Fund #89200) – The purpose of this fund is to account for capital project appropriations made to the Department for post-secondary educational institutions and special schools. 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. 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.

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS

June 30, 2014

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. Funds not utilized are rolled forward to the subsequent fiscal year.

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. This fund is non-reverting.

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. This fund is non-reverting.

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. This fund has a multiple-year budget. Funds not utilized are adjusted from the original budget.

State of New Mexico
Higher Education Department

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS – CONTINUED

June 30, 2014

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

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

American Recovery and Reinvestment Act (SHARE Fund #89000) – To account for funding programs authorized by the U.S. Department of Education's Grant Administration to supplement phase II of public institutions of higher education to ensure that the state will maintain the state's support for public higher education for each of fiscal years 2009, 2010, 2011 at least at the respective levels of such support for fiscal year 2006. This fund is non-reverting.

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Higher Education Department

COMBINING BALANCE SHEET – NON-MAJOR FUNDS

June 30, 2014

	10990 ABE Instructional Materials	21700 College Affordability Scholarship	29200 College Goal Sunday Grant	34400 Post-Secondary Educational Institution	47900 Faculty Endowment
ASSETS					
Interest in State Treasurer General Fund Investment Pool	\$ 23,550	\$ -	\$ 8,507	\$ 777,365	\$ 83,157
Due from other funds - fiduciary fund	-	2,000,000	-	-	-
Due from other state agencies	-	-	1	-	6
Accounts receivable	-	-	-	90,500	-
Due from federal government	-	-	-	-	-
Total assets	<u>\$ 23,550</u>	<u>\$ 2,000,000</u>	<u>\$ 8,508</u>	<u>\$ 867,865</u>	<u>\$ 83,163</u>
LIABILITIES					
Liabilities					
Accounts payable	\$ -	\$ 4,867	\$ -	\$ 12,796	\$ -
Interest in State Treasurer Federal Fund Investment Pool - overdraft	-	809,823	-	-	-
Accrued payroll and benefits payable	-	-	-	6,072	-
Deferred Revenue	-	-	-	-	-
Due to federal government	-	-	-	-	-
Due to state general fund	-	-	-	-	-
Total liabilities	-	814,690	-	18,868	-
DEFERRED INFLOWS	-	-	-	50,000	-
FUND BALANCES					
Spendable					
Restricted	23,550	1,185,310	8,508	798,997	83,163
Unassigned	-	-	-	-	-
Total fund balances	<u>23,550</u>	<u>1,185,310</u>	<u>8,508</u>	<u>798,997</u>	<u>83,163</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 23,550</u>	<u>\$ 2,000,000</u>	<u>\$ 8,508</u>	<u>\$ 867,865</u>	<u>\$ 83,163</u>

<u>54500</u> <u>Higher</u> <u>Education</u> <u>Performance</u>	<u>64400</u> <u>Capital</u> <u>Projects</u>	<u>78200</u> <u>Program</u> <u>Development</u> <u>Enhancement</u>	<u>88100</u> <u>Legislative</u> <u>Endowment</u> <u>Scholarship</u>	<u>89000</u> <u>ARRA</u>	<u>Total</u> <u>Non-Major</u> <u>Governmental</u> <u>Funds</u>
\$ 2,075	\$ -	\$ 139,323	\$ 720,540	\$ 35,000	\$ 1,789,517
-	-	-	-	-	2,000,000
-	226,081	10	221	-	226,319
-	-	-	-	-	90,500
-	-	-	-	-	-
<u>\$ 2,075</u>	<u>\$ 226,081</u>	<u>\$ 139,333</u>	<u>\$ 720,761</u>	<u>\$ 35,000</u>	<u>\$ 4,106,336</u>
\$ -	\$ 204,080	\$ -	\$ -	\$ -	\$ 221,743
-	137,031	-	-	-	946,854
-	-	-	-	-	6,072
-	-	-	-	-	-
-	-	-	-	35,000	35,000
-	-	-	-	-	-
-	341,111	-	-	35,000	1,209,669
-	-	-	-	-	50,000
2,075	-	139,333	720,761	-	2,961,697
-	(115,030)	-	-	-	(115,030)
<u>2,075</u>	<u>(115,030)</u>	<u>139,333</u>	<u>720,761</u>	<u>-</u>	<u>2,846,667</u>
<u>\$ 2,075</u>	<u>\$ 226,081</u>	<u>\$ 139,333</u>	<u>\$ 720,761</u>	<u>\$ 35,000</u>	<u>\$ 4,106,336</u>

State of New Mexico
Higher Education Department

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

For the Year Ended June 30, 2014

	10990 ABE Instructional Materials	21700 College Affordability Scholarship	29200 College Goal Sunday Grant	34400 Post-Secondary Educational Institution	47900 Faculty Endowment
Revenues					
Federal grant revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Other licenses and permits	-	-	-	459,812	-
Interest on investments	-	143	6	-	59
Miscellaneous revenue	-	615	-	-	-
Other grant revenue	-	-	-	-	-
Total revenues	<u>-</u>	<u>758</u>	<u>6</u>	<u>459,812</u>	<u>59</u>
Expenditures					
Current:					
Personal services and employee benefits	-	-	-	173,156	-
Contractual services	-	-	-	12,319	-
Other	253,753	1,999,998	-	11,492	-
Total expenditures	<u>253,753</u>	<u>1,999,998</u>	<u>-</u>	<u>196,967</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(253,753)	(1,999,240)	6	262,845	59
Other financing sources (uses)					
State General Fund appropriation	-	-	-	-	-
Bond proceeds appropriations	-	-	-	-	-
Other financing sources	277,300	4,000,000	-	-	-
Reversion to state general fund	-	-	-	-	-
Total other financing sources (uses)	<u>277,300</u>	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	23,547	2,000,760	6	262,845	59
Fund balances, beginning	<u>3</u>	<u>(815,450)</u>	<u>8,502</u>	<u>536,152</u>	<u>83,104</u>
Fund balance, ending	<u>\$ 23,550</u>	<u>\$ 1,185,310</u>	<u>\$ 8,508</u>	<u>\$ 798,997</u>	<u>\$ 83,163</u>

54500 Higher Education Performance	64400 Capital Projects	78200 Program Development Enhancement	88100 Legislative Endowment Scholarship	89000 ARRA	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	459,812
2	-	208	2,067	-	2,485
-	-	-	-	-	615
-	-	-	-	-	-
2	-	208	2,067	-	462,912
-	-	-	-	-	173,156
-	-	-	-	-	12,319
-	511,309	1,265,000	-	-	4,041,552
-	511,309	1,265,000	-	-	4,227,027
2	(511,309)	(1,264,792)	2,067	-	(3,764,115)
-	-	1,250,000	-	-	1,250,000
-	511,308	-	-	-	511,308
-	-	-	-	-	4,277,300
-	-	-	-	-	-
-	511,308	1,250,000	-	-	6,038,608
2	(1)	(14,792)	2,067	-	2,274,493
2,073	(115,029)	154,125	718,694	-	572,174
<u>\$ 2,075</u>	<u>\$ (115,030)</u>	<u>\$ 139,333</u>	<u>\$ 720,761</u>	<u>\$ -</u>	<u>\$ 2,846,667</u>

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, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Other revenues	\$ -	\$ -	\$ -	\$ -
Miscellaneous revenue	-	-	-	-
Total budgeted revenues	-	-	-	-
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Personal services and benefits	170,000	-	-	-
Other costs	311,000	277,300	253,753	23,547
Total budgeted expenditures	481,000	277,300	253,753	23,547
Excess (deficiency) of revenue over expenditures	(481,000)	(277,300)	(253,753)	23,547
Other financing sources (uses)				
Other financing sources	481,000	277,300	277,300	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,547</u>	<u>\$ 23,547</u>

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, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 143	\$ 143
Other revenue	-	-	615	615
Total budgeted revenues	-	-	758	758
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Other costs	2,000,000	2,000,000	1,999,998	2
Total budgeted expenditures	2,000,000	2,000,000	1,999,998	2
Excess (deficiency) of revenue over expenditures	(2,000,000)	(2,000,000)	(1,999,240)	760
Other financing sources (uses)				
Other financing sources	2,000,000	2,000,000	4,000,000	2,000,000
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 2,000,760	\$ 2,000,760

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, 2014

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

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

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**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, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Other licenses and permits	\$ 287,900	\$ 287,900	\$ 459,812	\$ 171,912
Other revenue	-	-	-	-
Total budgeted revenues	287,900	287,900	459,812	171,912
Prior year fund balance budgeted	-	-		
Total budgeted revenues	287,900	287,900		
Expenditures				
Personal services and benefits	-	219,700	173,156	46,544
Contractual services	-	12,400	12,319	81
Other costs	287,900	55,800	11,492	44,308
Total budgeted expenditures	287,900	287,900	196,967	90,933
Excess (deficiency) of revenue over expenditures	-	-	262,845	80,979
Net change in fund balance	\$ -	\$ -	\$ 262,845	\$ 80,979

State of New Mexico
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**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, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 59	\$ 59
Other revenue	-	-	-	-
Total budgeted revenues	-	-	59	59
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	59	59
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ 59</u>

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

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, 2014

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

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

State of New Mexico
Higher Education Department

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

For the Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
General obligation bond appropriations	\$ 533,128	\$ 533,128	\$ 511,308	\$ (21,820)
Total budgeted revenues	533,128	533,128	511,308	(21,820)
Expenditures				
Other costs	533,128	533,128	511,309	21,819
Total budgeted expenditures	533,128	533,128	511,309	21,819
Excess (deficiency) of revenue over expenditures	-	-	(1)	(1)
Net change in fund balance	\$ -	\$ -	\$ (1)	\$ (1)

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.

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**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, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 208	\$ 208
Other revenue	-	-	-	-
Total budgeted revenues	-	-	208	208
Prior year fund balance budgeted	-	15,000		
Total budgeted revenues	-	15,000		
Expenditures				
Other costs	1,265,000	1,280,000	1,265,000	15,000
Total budgeted expenditures	1,265,000	1,280,000	1,265,000	15,000
Excess (deficiency) of revenue over expenditures	(1,265,000)	(1,265,000)	(1,264,792)	15,208
Other financing sources (uses)				
State General Fund appropriation	1,265,000	1,265,000	1,250,000	(15,000)
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,792)</u>	<u>\$ 208</u>

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, 2014

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 2,067	\$ 2,067
Other revenue	-	-	-	-
Total budgeted revenues	-	-	2,067	2,067
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	2,067	2,067
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,067</u>	<u>\$ 2,067</u>

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

State of New Mexico
Higher Education Department

SCHEDULE OF SPECIAL APPROPRIATIONS

June 30, 2014

Special Appropriations

	Appropriation Period	Current Year Revenue	Amount Appropriated	Current Year Expenditures	Project to Date Expenditures	Unexpended Portion	Unexpended and Reverted
Laws of 2013, Chapter 227, Section 8	2014	\$5,844,800	\$5,844,800	\$5,844,800	\$ 5,844,800	\$ -	\$ -
Laws of 2014, Chapter 63, Section 5	2014	\$2,900,000	\$2,900,000	\$2,900,000	\$ 2,900,000	\$ -	\$ -

Capital Appropriations

	Group	Approp. ID	Approp. End Date	Amount Sold	Amount Drawn Prior	Amount Drawn Current	Amount AIPP	Balance Held by State Board of Finance June 30, 2014	SHARE Capital Project Fund
2010 Go Bond for Libraries	GOB11	10-1229	6/30/2014	2,000,000	\$(1,485,892)	\$ (511,308)	\$ -	\$ 2,800	64400
Library Acquisitions Academic L1BR St	GOB13	12-1234	6/30/2016	3,000,000	-	(1,768,190)	-	1,231,810	89200
CNMCC South Valley & Main Campus RE	GOB13	12-1239	6/30/2016	10,500,000	-	(604,866)	-	9,895,134	89200
CCC Infrastructure Improvement	GOB13	12-1240	6/30/2016	800,000	-	(94,631)	-	705,369	89200
NMJC Infrastructure Improvement	GOB13	12-1241	6/30/2016	3,300,000	-	(192,947)	-	3,107,053	89200
MCC Infrastructure & Roof Renovate	GOB13	12-1242	6/30/2016	1,000,000	-	(660,096)	-	339,904	89200
HED SJC Infrastructure Improvement	GOB13	12-1243	6/30/2016	1,200,000	-	(451,598)	-	748,402	89200
LCC VOC ED Complex Renovate	GOB13	12-1244	6/30/2016	4,000,000	-	-	-	4,000,000	89200
SFCC Roofing Upgrades	GOB13	12-1245	6/30/2016	1,000,000	-	(748,298)	-	251,702	89200
NMJC Energy Tech Center Equip. Purchase	STB12SA	12-1527	6/30/2014	487,000	-	(487,000)	-	-	89200
SFCC Sign Language Interpret Program Info	STB12SA	12-1528	6/30/2016	58,000	-	(21,464)	-	36,536	89200
CNMCC Fiber Optic Loop	STB13A	13-1880	6/30/2017	1,000,000	-	(87,447)	-	912,553	89200
LCC-Springer Renovate	STB13A	13-1881	6/30/2017	300,000	-	-	(3,000)	297,000	89200
NMJC Infra Improve	STB13A	13-1882	6/30/2017	1,000,000	-	(1,000,000)	-	-	89200
SJC School of Energy	STB13A	13-1883	6/30/2017	5,083,200	-	(2,649,524)	-	2,433,676	89200
SFCC Health Sciences PGMS Equipment	STB13A	13-1884	6/30/2017	56,000	-	-	-	56,000	89200
SFCC Sign Language Equipment & Info Tech	STB13A	13-1885	6/30/2017	48,750	-	(42,072)	-	6,678	89200
SFCC Trades & Tech Bldg Construction & Ren.	STB13A	13-1886	6/30/2017	117,778	-	(76,480)	(1,178)	40,120	89200
NMJC Energy Tech Training Info Tech	STB14A	14-2111	6/30/2016	425,000	-	-	-	425,000	89200
MCC Roofing & HVAC	STB14A	14-2112	6/30/2018	140,000	-	-	-	140,000	89200
SJC-West Signage	STB14A	14-2113	6/30/2018	15,000	-	-	-	15,000	89200
SFCC AL T Energy Classroom/Lab Space IMP	STB14A	14-2115	6/30/2018	240,000	-	-	-	240,000	89200
SFCC Media/Film Tech Upgrades	STB14A	14-2116	6/30/2016	75,000	-	-	-	75,000	89200
				<u>\$35,845,728</u>	<u>\$(1,485,892)</u>	<u>\$ (9,395,921)</u>	<u>\$(4,178)</u>	<u>\$ 24,959,737</u>	

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

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 FFY12	V002A120031	84.002	\$ 130,330
Adult Education - Basic Grants to States FFY13	V002A130032	84.002	3,535,969
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S12005	84.334	4,561,107
No Child Left Behind FFY11	S367B110028	84.367	183,542
No Child Left Behind FFY12	S367B120028	84.367	389,634
College Access Challenge Grant	P378A110052	84.378	67,569
College Access Challenge Grant	P378A120052	84.378	<u>676,642</u>
Total U.S. Department of Education Direct			9,544,793
Indirect Programs:			
Passed through Florida Department of Education			
Race to the Top Assessment Program - Comprehensive Assessment Systems Grant (PARCC)	NM3-PH111	84.395B	<u>21,540</u>
Total U.S. Department of Education			9,566,333
U.S. Department of Health and Human Services:			
Direct Programs:			
Grants to States for Loan Repayment Program	H56HP00099-25-01	93.165	40,500
Grants to States for Loan Repayment Program	H56HP00099-26-01	93.165	<u>96,227</u>
Total U.S. Department of Health and Human Services			136,727
U.S. Department of Justice			
Direct Programs:			
John R. Justice Prosecutors and Defenders Incentive Act	2011-RJ-BX-0046	16.816	<u>53,950</u>
Total U.S. Department of Justice			<u>53,950</u>
			<u><u>\$ 9,757,010</u></u>

State of New Mexico
Higher Education Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2014

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>Provided to Subreipients</u>
Adult Education - Basic Grants to States	84.002	\$ 3,275,197
GEAR-UP	83.334	3,667,780
No Child Left Behind	84.367	<u>573,176</u>
Total provided to subrecipients		<u>\$ 7,516,153</u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Dr. Jose Z. Garcia, Cabinet Secretary
State of New Mexico
Higher Education Department
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 budgetary comparison for the general fund and major special revenue funds, the fiduciary funds, and the aggregate remaining fund information of the State of New Mexico Higher Education Department (the Department) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We have also audited the financial statements of each of the Department's non-major governmental funds and respective budgetary comparisons presented as supplementary information, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2014, as listed in the table of contents, and have issued our report thereon dated December 15, 2014.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 2006-001, 2010-001, 2010-005, and 2012-001 to be material weaknesses.

Compliance and Other Matters

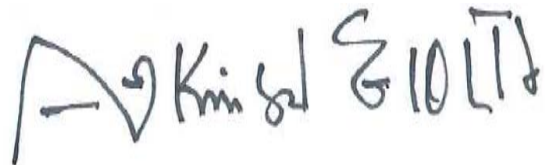
As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2010-015 and 2010-018.

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.

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Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 15, 2014



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

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

Report on Compliance for Each Major Federal Program

We have audited the State of New Mexico Higher Education Department's (the Department) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2014. 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.

Auditors' 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 and Adult Education

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding CFDA 84.334A GEAR UP and CFDA 84.002A Adult Education as described in finding number 2010-018 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 and Adult Education

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 and Adult Education programs for the year ended June 30, 2014.

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, 2014.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-015. Our opinion on each major federal program is not modified with respect to these matters.

The Department's response to the noncompliance 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.

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

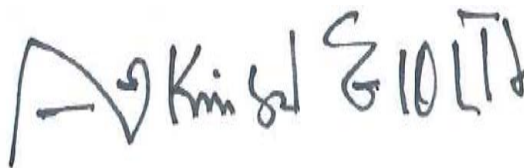
discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 2010-018 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-015 to be a significant deficiency.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 15, 2014

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued Unmodified

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	84.378
Adult Education – Basic Grants to States	84.002
GEAR UP	84.334
No Child Left Behind	84.367

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, 2014

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
- 2010-05 Capital Projects Accounting and Reporting – Repeated and modified
- 2010-18 Federal Grant Subrecipient Monitoring – Repeated and modified
- 2012-01 Lack of Cash Reconciliation Procedures – Repeated

Findings In Accordance With 2.2.2 NMAC

- 2013-01 Late Submission of Auditor Recommendation and Contract – Resolved

Federal Award Findings

- 2010-13 Cash Management Controls and Compliance – Resolved
- 2010-15 Allowable Costs – Repeated and modified
- 2010-16 Procurement, Suspension, and Debarment – Resolved
- 2010-18 Federal Grant Subrecipient Monitoring – Repeated and modified

III – FINANCIAL STATEMENT FINDINGS

- 2006-001 Reconciliation and Tracking of Loan-for-Service Programs (Material Weakness)
- 2010-001 Entity-Level Controls over Financial Reporting (Material Weakness)
- 2010-005 Capital Projects Accounting and Reporting (Material Weakness)
- 2010-015 Allowable Costs (Compliance)
- 2010-018 Federal Grant Subrecipient Monitoring (Compliance)
- 2012-001 Lack of Cash Monitoring Procedures (Material Weakness)

IV – FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC

None

V – FEDERAL AWARD FINDINGS

- 2010-015 Allowable Costs (Significant Deficiency) (Compliance)
- 2010-018 Federal Grant Subrecipient Monitoring (Material Weakness) (Compliance)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS

2006-001 [2006-01] Reconciliation and Tracking of Loan-for-Service Programs (Material Weakness)

Condition

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

- 2 of 25 loans tested did not have signed promissory notes in place prior to the loan being disbursed.
- 4 of 25 loans tested were not able to have accrued interest amounts verified.
- Management was not able to adjust accrued loan interest accounts prior to the audit.
- Absence of written policies or procedures for determining which loans are uncollectable.

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 interest be accrued based on contractual rates and provisions. Documentation of all loan activity should be retained for legal and recordkeeping purposes.

Effect

Students could be improperly issued loans and material adjustments were made by the auditors to properly state the accrued loan interest, interest income, and allowance for doubtful accounts balances.

Cause

Department staff did not have the resources necessary to reconcile the SHARE general ledger accounts to the sub-ledger reports on a regular basis, in part due to deficiencies at the Department's loan servicer. 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 loan interest receivable and collectable loans.

Recommendation

Monthly detailed reports from ECSI and postings to the general ledger for loan activity including interest accrual should be reviewed by management to ensure that all loan information is accurately reflected in the general ledger. The Department should draft and implement policies and procedures for determining and calculating the allowance for doubtful accounts related to loan receivables.

Views of Responsible Officials and Planned Corrective Action

The Financial Aid internal controls and review process, prior to the audit, identified and corrected two loans that had been issued without promissory note signatures. This was brought to the attention of the auditors and therefore HED concurs with the finding. The Division has worked with the vendor (ESCI) to monitor loan activities; modify vendor reports and obtain necessary data to conduct comprehensive transaction level reconciliations to the general ledger, ensuring accuracy of balances within the SHARE system, and corresponding accuracy of loan documents. It is important to note that, prior to the close of the audit; HED was able to provide documentation on accrued interest and associated allowance. In New Mexico, the statute of limitations for open accounts is four years, while the statute of limitations for written contracts is six years. HED utilizes NMSA 1978 §37-1-1 et seq., which is the governing statute,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

**2006-001 [2006-01] Reconciliation and Tracking of Loan-for-Service Programs (Material Weakness)
– Continued**

Views of Responsible Officials and Planned Corrective Action – Continued

to determine which loans are uncollectible. This is the written policy HED will follow and include in future documentation.

Point of Contact

Dr. Harrison Rommel, Financial Aid Director

2010-001 [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 FY14. Financial accounting and reporting functions showed increased centralization and progress toward implemented controls during FY14, but were not in place for the entire fiscal year and continue to require emphasis and Department effort toward coordination between business processes.

For some activities, there was an absence of controls, including the effective monitoring of accounts that impacted the accuracy of financial reporting. Issues noted during the audit included:

- An adjustment to due to local government account in the general fund of \$1,001,327 due to the Agency not reversing an adjusting entry from 2012 in 2013.
- An adjustment to recognize \$53,899 of fee revenue deferred in the prior year.
- An adjustment to record investments in a fiduciary fund at fair market value and recognize income and expense related to interest, fees, and withdrawals.
- Accounts receivable for fees due for FY14 from private and proprietary schools in the amount of \$90,500 were not recorded.

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 and reversions to the state general fund.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-001 [2010-01] Entity-Level Controls over Financial Reporting (Material Weakness) – Continued

Cause – Continued

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. The financial accounting and reporting function controls implemented in FY 2014 have continued to be refined, with the additional movement of key financial staff under ASD. During FY 2014, HED was missing a key staff member in ASD, which limited the ability to reconcile and correct accounts. In addition, there was limited reconciliation of asset and liability accounts which resulted in items not being identified for correction prior to fiscal audit. The transactions listed on this finding have been resolved through the processing of a Journal Entry. 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.

Point of Contact

Gerald Hoehne, Acting ASD Director

2010-005 [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 activity occurred.
- Capital projects activity in Fund 64400 was not fully reconciled for FY14 for the one project still accounted for in that fund, resulting in a net overstatement of expenditures in the amount of \$30,926, and a net overstatement of revenues in the amount of \$102,051.
- Capital projects activity in Fund 89200 was not fully reconciled for FY14 resulting in a net understatement of expenditures in the amount of \$2,003,481 (4 projects), and a net overstatement of revenues in the amount of \$3,862,078 (12 projects).

Criteria

The project funds expended in FY14 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-005 [2010-05] Capital Projects Accounting and Reporting (Material Weakness) – Continued

Criteria – Continued

recorded when incurred. A matching revenue accrual should be concurrently recorded for documented expenses as long as all eligibility requirements are met.

Effect

Capital project revenues and expenditures were 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 and reconcile 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. The transactions listed on this finding have been resolved through the processing of a Journal Entry. ASD and Institutional Finance will continue to assess its current system of tracking and reconciling capital projects, aligning these with GAAP and the auditor's recommendations. HED will review the implementation of additional policies and internal controls to ensure structured accounting practices for personnel are in place.

Point of Contact

Gerald Hoehne, Acting ASD Director

2010-015 [2010-15] Allowable Costs (Compliance)

Condition

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

- Time certifications were not prepared for employees who charge all or part of their time to federal programs as follows:
 - GEAR UP – 4 of 27 transactions tested
 - ABE – 12 of 12 transactions tested

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-015 [2010-15] Allowable Costs (Compliance) – Continued

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.

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.

Recommendation

See Federal Award Finding 2010-015.

Views of Responsible Officials and Planned Corrective Action

See Federal Award Finding 2010-015.

Point of Contact

See Federal Award Finding 2010-015.

2010-018 [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: 7/1/2013 – 6/30/2014

Funding Agency: U.S. Department of Education
Title: Adult Basic Education (ABE)
CFDA Number: 84.002
Period: 7/1/2013 – 6/30/2014

Condition

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

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-018 [2010-18] Federal Grant Subrecipient Monitoring (Compliance) – Continued

Condition – Continued

Tests Performed	Program	Population	Sample	No. of failures in sample
Controls				
Sub-grant Agreement signed by the Cabinet Secretary and the Sub-grantee's authorized contract signor. Documents were received prior to disbursement of funds.	ABE	26	5	5
Compliance				
HED obtained DUNS numbers for sub-recipients prior to issuance of the sub award.	ABE	26	5	5
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
HED ensured that required sub-recipients audits were completed and the SEFA presentation included the sub-grant award.	ABE	26	5	5
HED followed up to ensure corrective action on deficiencies regarding reports listed in previous attribute.	Gear-up	12	2	1
	ABE	26	5	4
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	1
	ABE	26	5	4
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.	ABE	26	5	4

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 subrecipient monitoring through grant award letters and monitoring procedures to ensure that subrecipients 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 subrecipients throughout the year was established, but not fully implemented; therefore, a significant risk exists regarding the subrecipients 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-018 [2010-18] Federal Grant Subrecipient Monitoring (Compliance) – Continued

Cause

The Department performed a sample amount of desk reviews; however, subrecipients were not carefully monitored to ensure specific grant compliance requirements and the desk review process was not comprehensive.

Recommendation

See Federal Award Finding 2010-018.

Views of Responsible Officials and Planned Corrective Action

See Federal Award Finding 2010-018.

Point of Contact

See Federal Award Finding 2010-018.

2012-001 [2012-01] Lack of Cash Monitoring Procedures (Material Weakness)

Condition

The Department did not have cash monitoring procedures in place to exercise effective oversight and monitoring of the cash balance for the year ended June 30, 2014. As a result, certain cash balances are in an overdraft position at June 30, 2014.

Criteria

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

Effect

The lack of reconciliation has resulted in cash balances that are overdrawn.

Cause

The Department has experienced turnover in key management positions every year since 2011, 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

Effective in FY15, HED has implemented a process of reviewing available claims on the State General Fund Investment Pool (cash) by fund and will ensure sufficient claims are available prior to making disbursements. HED will also investigate and mitigate any funds with deficit balances.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

2012-001 [2012-01] Lack of Cash Monitoring Procedures (Material Weakness) – Continued

Point of Contact

Ron Spilman, Institutional Finance Director/Agency CFO

FEDERAL AWARD FINDINGS

2010-015 [2010-15] Allowable Costs (Significant Deficiency) (Compliance)

Funding Agency: U.S. Department of Education
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)
CFDA Number: 84.334A
Period: 7/1/2013 – 6/30/2014

Funding Agency: U.S. Department of Education
Title: Adult Basic Education (ABE)
CFDA Number: 84.002
Period: 7/1/2013 – 6/30/2014

Condition

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

- Time certifications were not prepared for employees who charge all or part of their time to federal programs as follows:
 - GEAR UP – 4 of 27 transactions tested
 - ABE – 12 of 12 transactions 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.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FEDERAL AWARD FINDINGS – CONTINUED

2010-015 [2010-15] Allowable Costs (Significant Deficiency) – Continued

Questioned Costs

None.

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

Responsible Official: ABE Director Dr. Frances Bannowsky

The ABE Division is in agreement with this finding. The Division has instituted controls to ensure 100% compliance. Controls established include Director's bi-weekly review and approval of time and effort for four federal funding streams within HED's time reporting system (SHARE) for each employee. In addition, the Director's time and effort is reviewed and approved bi-weekly, within HED's time reporting system (SHARE), by HED's Operations Manager. Furthermore, time and effort certification forms are completed by each ABE staff member and Director on a bi-annual basis and retained accordingly.

Responsible Official: GEAR-UP Director Dr. Brigette Russell

The GEAR-UP Division is in agreement with this finding although it is important to note that the Division was 100% in compliance in FY2014 with only this one exception. In order to avoid any future exceptions and to strengthen controls, in addition to Director's approval, internal reviews will be performed semi-annually by GEAR-UP's Fiscal Officer to ensure 100% compliance. The first bi-annual review revealed 100% compliance to date for FY2015.

Point of Contact

See above.

2010-018 [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: 7/1/2013 – 6/30/2014

Funding Agency: U.S. Department of Education

Title: Adult Basic Education (ABE)

CFDA Number: 84.002

Period: 7/1/2013 – 6/30/2014

Condition

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

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FEDERAL AWARD FINDINGS – CONTINUED

2010-018 [2010-18] Federal Grant Subrecipient Monitoring (Material Weakness) (Compliance) – Continued

Condition – Continued

Tests Performed	Program	Population	Sample	No. of failures in sample
Controls				
Sub-grant Agreement signed by the Cabinet Secretary and the Sub-grantee's authorized contract signor. Documents were received prior to disbursement of funds.	ABE	26	5	5
Compliance				
HED obtained DUNS numbers for sub-recipients prior to issuance of the sub award.	ABE	26	5	5
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
HED ensured that required sub-recipients audits were completed and the SEFA presentation included the sub-grant award.	ABE	26	5	5
HED followed up to ensure corrective action on deficiencies regarding reports listed in previous attribute.	Gear-up	12	2	1
	ABE	26	5	4
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	1
	ABE	26	5	4
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.	ABE	26	5	4

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 subrecipient monitoring through grant award letters and monitoring procedures to ensure that subrecipients 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 subrecipients throughout the year was established, but not fully implemented; therefore, a significant risk exists regarding the subrecipients 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-018 [2010-18] Federal Grant Subrecipient Monitoring (Material Weakness) (Compliance) – Continued

Cause

The Department performed a sample amount of desk reviews; however, subrecipients were not carefully monitored to ensure specific grant compliance requirements and the desk review process was not comprehensive.

Questioned Costs

Unknown.

Recommendation

The Department has partially implemented a formal process to effectively monitor subrecipients as well as policies to collect and maintain key information such as formal approval of recipient awards, all evidence of monitoring, and follow up actions. The Department's monitoring of these processes needs to be carried out.

Views of Responsible Officials and Planned Corrective Action

It is important to note that both federal programs instituted procedures in January of 2014, after the issuance of the FY 2013 audit, to ensure each of their subrecipient monitoring activities were in adherence to the US Code of Federal Regulations and any other related Federal requirements.

The ABE Division is in agreement with this finding:

- Effective July 1, 2014, ABE's Division Director is ensuring proper signatures are obtained prior to funds being disbursed for all sub-grant agreements.
- Effective July 1, 2014, ABE Division's Management Analyst is ensuring each subrecipient has an active DUNS number and is not suspended or debarred prior to issuance of the sub award. In addition, the Management Analyst is required to retain copies as verification these tasks were performed accordingly.
- Effective July 1, 2014, the Division Director is ensuring all subrecipient award letters contain CFDA title and number, award name and number, name of the Federal awarding agency, and states the laws, regulations, and provisions applicable to the ABE grant.
- Effective July 1, 2014, the Division Director is ensuring all subrecipient required audits are completed, sub-awards are verified on SEFA schedules, corrective actions involving ABE sub-awards are resolved, management decision letters are issued, and appropriate sanctions are imposed in cases of continued subrecipient non-compliance.

The GEAR-UP Division is in agreement with this finding:

- Effective July 1, 2014, the Division Director is ensuring all subrecipient award letters contain CFDA title and number, award name and number, name of the Federal awarding agency, and states the laws, regulations, and provisions applicable to the GEAR-UP grant.
- The Division Director will ensure that all subrecipient required audits are completed, corrective actions involving GEAR-UP sub-awards are resolved, and management decision letters are issued on audit findings within 6 months.

Points of Contact

Frances Bannowski, Adult Basic Education Director, Dr. Brigette Russell, GEAR-UP Director

State of New Mexico
Higher Education Department

PREPARATION OF FINANCIAL STATEMENTS AND EXIT CONFERENCE

Year Ended June 30, 2014

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, 2014 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

Gerald Hoehne, Acting Administrative Services Director (ASD)

Ronald Spilman, Institutional Finance Director/Agency CFO

Various other program personnel

Atkinson & Co., Ltd.

Marty Mathisen, CPA, CGFM, Audit Director

Sarah Brack, CPA, CGFM, CGMA, Audit Manager

Heather Prudhomme, CPA, CGFM, CGMA, Audit Manager

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