



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT**

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

June 30, 2015

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State of New Mexico
Higher Education Department

OFFICIAL ROSTER

June 30, 2015

Administrative Officials

<u>Name</u>	<u>Title</u>
Dr. Barbara Damron	Cabinet Secretary
Andrew Jacobson	Deputy Cabinet Secretary
Donna Trujillo	Administrative Services Director
Michelle Casias	Director of Operations
David Mathews	General Counsel
Joseph Cueto	Public Information Officer
Patricia Brainard	Gear Up Director
Dina Advani	Director of Research and Analysis
Francis Bannowsky	AE Director
Harrison Rommel	Financial Aid Director
Dan Koleski	Chief Information Officer



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Dr. Barbara Damron, Cabinet Secretary
State of New Mexico
Higher Education Department
and
Mr. Timothy Keller
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, 2015, 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, 2015, 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 auditors' 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, 2015 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, 2015 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, 2015, 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 is not modified with respect to 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 is not modified with respect to this matter.

Net Pension Liability Disclosure

As discussed in Note J, the State of New Mexico, as a single employer, has implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2015

Comprehensive Annual Financial Report (CAFR). Accordingly, there is no allocation of the proportionate share of the net pension liability to individual agencies or to the Department's governmental funds. All other required disclosures and supplementary information required by GASB 68 are included in the State of New Mexico CAFR for the year ended June 30, 2015. Our opinion is not modified with respect to 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

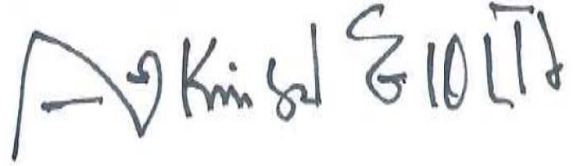
Our audit was conducted for the purpose of forming opinions on the financial statements, the combining and individual non-major fund financial statements, the fiduciary fund statements, and respective budgetary comparisons that collectively comprise the Department's basic financial statements. The schedule of special appropriations, schedule of expenditures of capital appropriations, and schedule of memorandums of understanding listed as other supplementary information are presented for purposes of additional analysis and are 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, schedule of capital appropriations, schedule of expenditures of federal awards, and schedule of memorandums of understanding 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, schedule of capital appropriations, schedule of expenditures of federal awards, and schedule of memorandums of understanding are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of vendor information, required by 2.2.2 NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2015, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", written in a cursive style.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 1, 2015

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended June 30, 2015

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, 2015. 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 higher learning institutions produce a skilled, educated workforce that will stimulate economic growth and bring prosperity to all the citizens of New Mexico.

The Department 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 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 performance-based funding formula. In the General Appropriations Act of 2011, the New Mexico legislature directed the Department to overhaul the formula to shift from an input-based formula to an outcome-based approach. The Department continues to work together with college and university stakeholders to further strengthen a formula which rewards institutions on their achievement of desired outcomes. These outcomes include total awards of certificates and degrees, awards in specific fields for workforce development, and awards for at-risk students, as well as mission measures specific to each type of institution and student credit hours completed. The current funding formula is in line with national best practices for performance based funding and is well regarded by a number of national experts.

HED's statutory authority is also responsible for administering the state 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 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, 2015

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 with the exception of 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, 2015. 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 2015 fiscal year.

The Department's activities are grouped into functional programs. The education activities are partially funded from federal revenues provided primarily by the U.S. Department of Education, with required state match for the Adult Education (AE) programs.

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, 2015

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, 2015

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 six (6) 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 Federal Fund (SHARE Fund 12150) was created to more easily administer federal funds in a separate account for transparency and internal control purposes.
 - 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.
- The Department's fiduciary activities are reported in separate statements of fiduciary Net Position and changes in fiduciary Net Position. We exclude these activities from the Department's other financial statements because the Department cannot use these assets to finance its operations. The Department is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2015

Financial Analysis of the Department as a Whole

Net Position

The Department's Net Position at June 30, 2015 was approximately \$29 million and increase of \$10 million over 2014. This increase was the result of special and supplementary appropriations needed to cover a cash shortfall related to fund balance-budgeting of non-spendable loan principal. Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2015. Total assets decreased by just 11% over 2014 while liabilities fell about 50%.

Table A-1			
Detail of Department Condensed Net Position as of June 30, 2015 and 2014			
(thousands)			
	2015	2014	Change
Assets:			
Current assets	\$ 24,403	\$ 32,623	\$ (8,220)
Non-current assets	13,378	13,092	286
Capital assets, net of accumulated depreciation	-	5	(5)
Total assets	<u>37,781</u>	<u>45,720</u>	<u>(7,939)</u>
Liabilities:			
Current liabilities	11,200	26,445	(15,245)
Compensated absences	127	141	(14)
Total liabilities	<u>11,327</u>	<u>26,586</u>	<u>(15,259)</u>
Total assets less liabilities	<u>26,454</u>	<u>19,134</u>	<u>7,320</u>
Deferred inflows	56	50	6
Net Position:			
Investments in capital assets, net of debt	-	5	(5)
Restricted	26,398	19,334	7,064
Unrestricted	-	(256)	256
Total net position	<u>\$ 26,398</u>	<u>\$ 19,133</u>	<u>\$ (36,049)</u>

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2015

Changes in Net Position

The Department's *change in net position* at June 30, 2015 was a positive \$10.4 million while the Department had experienced a decrease in net position for 2014 of \$16,964 million. The increase in this years' change is essentially due to the special and supplemental appropriations that occurred for 2015. A detail of the additional appropriations can be found in a schedule in these financial statements. Table A-2 summarizes the Department's changes in net position for the fiscal year ended June 30, 2015.

Table A-2			
Statement of Activities as of June 30, 2015 and 2014 (thousands)			
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Program revenues:			
Program revenues	\$ 8,488	\$ 10,224	\$ (1,736)
Total program revenues	8,488	10,224	(1,736)
General revenues (expenses):			
State appropriations	70,853	43,471	27,382
Other financing sources	3,116	4,295	(1,179)
Education expenses	(131,971)	(130,209)	(1,762)
Reversions	(373)	(1,430)	1,057
Proceeds of State General obligation and severance tax bonds	15,710	9,396	6,314
Proceeds from Lottery	40,728	46,603	(5,875)
Miscellaneous	168	48	120
Total general revenues (expenses)	(1,769)	(27,826)	26,057
Investment earnings	19	21	(2)
Interest on loans	575	617	(42)
Total other investment income (expenses)	594	638	(44)
Change in net position	7,313	(16,964)	24,277
Net position, beginning	19,085	36,049	(16,964)
Net position, ending	<u>\$ 26,398</u>	<u>\$ 19,085</u>	<u>\$ 7,313</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2015

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 2016 General Fund appropriation for Institutional Financial Oversight (P-505) is \$11,998.7 million, an increase over the appropriation for 2015 of less than 1%. The reduction appears negligible; however, the amount of general fund appropriation legislatively earmarked for Adult Education (AE, formally listed ABE) increased from \$5,350.8 million in fiscal year 2015 to \$5,678.7 in fiscal year 2016. This is an increase of 5.8%. This impacts the General Fund allocation available for operations, effectively reducing it by 4% or \$255 thousand. The reduction occurred in the 200 category.

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

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2015

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 FY15 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.

	Final Budget	Actual Amount
Personal services and employee benefits	\$ 2,726	\$ 2,522
Contractual services	325	255
Other	17,987	17,844
Total education	\$ 21,037	\$ 20,621

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	\$ 53	
Other costs	36,196	23,030
Total education	\$ 36,249	\$ 23,030

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	\$ 68,872	\$ 61,793
Total education	\$ 68,872	\$ 61,793

State of New Mexico
Higher Education Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2015

HED's Capital Projects Fund (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.

	<u>Final Budget</u>	<u>Actual Amount</u>
Other costs	<u>\$ 52,018</u>	<u>\$ 15,710</u>
Total education	<u><u>\$ 52,018</u></u>	<u><u>\$ 15,710</u></u>

Economic and Budgetary Factors

National and State Economy: The national and state economies are experiencing slow increases in the rate of employment and the upcoming Fiscal Year 2016 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.

Contact Information
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www.hed.state.nm.us

State of New Mexico
Higher Education Department

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities
ASSETS	
Investment in State Treasurer General Fund Investment Pool	\$ 15,936,195
Due from other state agencies	6,413,190
Due from federal government	2,054,668
Total current assets	24,404,053
Loans and interest receivable, net of allowance for doubtful accounts	13,376,897
Capital assets	63,420
Less: accumulated depreciation	(63,420)
Total assets	\$ 37,780,950
 LIABILITIES, DEFERRED INFLOWS AND NET POSITION	
Current Liabilities	
Accounts payable	\$ 9,170,111
Investment in State Treasurer General Fund Investment Pool overdraft	782,495
Accrued salaries and benefits payable	98,725
Due to State General Fund	616,785
Due to other state agencies	9,728
Due to federal government	17,500
Compensated absences due within one year	127,081
Unearned revenue	500,000
Other liabilities	4,839
Total current liabilities	11,327,264
Total liabilities	11,327,264
Deferred Inflows	56,000
Net Position	
Net investment in capital assets	-
Restricted	26,397,686
Unrestricted	-
Total net position	26,397,686
Total liabilities, deferred inflows, and net position	\$ 37,780,950

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, 2015

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants	
Governmental activities				
General government	\$ (3,314,081)	\$ -	\$ -	\$ (3,314,081)
Depreciation	(2,832)	-	-	(2,832)
Program activities				
General government				
Adult Basic Education	(9,379,994)	-	3,803,990	(5,576,004)
GEAR-UP	(3,528,032)	-	3,528,032	-
GEAR-UP Depreciation	(1,815)	-	-	(1,815)
College Access Challenge	(404,290)	-	404,290	-
No Child Left Behind	(420,967)	-	420,967	-
Race to the Top Assessment (PARCC)	(18,460)	-	18,460	-
Financial aid programs	(24,951,090)	-	35,275	(24,915,815)
Fiscal oversight flowthrough	(12,086,500)	-	-	(12,086,500)
Lottery scholarships	(61,793,180)	-	-	(61,793,180)
Capital projects flowthrough	(15,710,240)	-	-	(15,710,240)
Other funds	(371,162)	367,617	-	(3,545)
	<u>\$ (131,982,643)</u>	<u>\$ 367,617</u>	<u>\$ 8,211,014</u>	<u>(123,404,012)</u>
General revenues (expenses)				
State General Fund appropriations				70,852,800
Bond proceeds				15,710,240
Lottery proceeds				40,728,418
Other financing sources				3,116,624
Reversion to State General Fund				(373,770)
Miscellaneous revenue				168,372
				<u>6,798,672</u>
Investment income				
Investment earnings				19,413
Interest on loans				496,573
				<u>515,986</u>
Change in net position				
				7,314,658
Net position, beginning				<u>19,083,028</u>
Net position, ending				<u>\$ 26,397,686</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, 2015

	91000 General Fund	21600 Financial Aid	63700 Lottery Tuition
ASSETS			
Interest in State Treasurer General Fund Investment Pool	\$ 1,976,495	\$ 1,791,689	\$ 3,402,139
Due from other funds	-	-	-
Due from other state agencies	-	-	3,052,921
Due from federal government	-	-	-
	1,976,495	1,791,689	6,455,060
Non-current assets:			
Loans and interest receivable, net of allowance for doubtful accounts	-	13,376,897	-
	-	13,376,897	-
	\$ 1,976,495	\$ 15,168,586	\$ 6,455,060
LIABILITIES			
Accounts payable	\$ 657,756	\$ 4,718	\$ 3,465,713
Interest in State Treasurer General Fund Investment Pool overdraft	-	-	-
Accrued payroll and benefits payable	51,367	-	-
Due to other funds	150,587	-	-
Unearned revenue	500,000	-	-
Due to the State General Fund	616,785	-	-
Due to the Federal Government	-	-	-
Due to other state agencies	-	-	-
	1,976,495	4,718	3,465,713
DEFERRED INFLOWS			
		-	-
FUND BALANCES			
Non-Spendable			
Loans Receivable		13,376,897	
Spendable			
Restricted	-	1,786,971	2,989,347
Unassigned	-	-	-
	-	15,163,868	2,989,347
Total fund balances	-	15,163,868	2,989,347
Total liabilities, deferred inflows, and fund balance	\$ 1,976,495	\$ 15,168,586	\$ 6,455,060

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

89200 Capital Projects FY2011	12150 Federal Funds	47900 Faculty Endowment	Non-major Governmental Funds	Total Governmental Funds
\$ 314,871	\$ -	\$ 5,500,299	\$ 2,950,702	\$ 15,936,195
-	-	-	150,587	150,587
3,359,666	-	388	215	6,413,190
-	2,054,669	-	-	2,054,669
<u>3,674,537</u>	<u>2,054,669</u>	<u>5,500,687</u>	<u>3,101,504</u>	<u>24,554,641</u>
-	-	-	-	13,376,897
<u>\$ 3,674,537</u>	<u>\$ 2,054,669</u>	<u>\$ 5,500,687</u>	<u>\$ 3,101,504</u>	<u>\$ 37,931,538</u>
\$ 3,674,537	\$ 1,371,880	\$ -	\$ 347	\$ 9,174,951
-	631,908	-	150,587	782,495
-	41,153	-	6,205	98,725
-	-	-	-	150,587
-	-	-	-	500,000
-	-	-	-	616,785
-	-	-	17,500	17,500
-	9,728	-	-	9,728
<u>3,674,537</u>	<u>2,054,669</u>	<u>-</u>	<u>174,639</u>	<u>11,350,771</u>
-	-	-	56,000	56,000
-	-	-	-	13,376,897
-	-	5,500,687	2,870,865	13,147,870
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>5,500,687</u>	<u>2,870,865</u>	<u>26,524,767</u>
<u>\$ 3,674,537</u>	<u>\$ 2,054,669</u>	<u>\$ 5,500,687</u>	<u>\$ 3,101,504</u>	<u>\$ 37,931,538</u>

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

State of New Mexico
Higher Education Department

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

June 30, 2015

Total fund balance for the governmental fund (Balance Sheet)	\$ 26,524,767
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>(63,420)</u>
	-
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>(127,081)</u>
Net position of governmental activities (Statement of Net Position)	<u>\$ 26,397,686</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, 2015

	91000 General Fund	21600 Financial Aid	63700 Lottery Tuition
Revenues			
Federal grants	\$ -	\$ -	\$ -
Other licenses and permits	-	-	-
Other gifts and grants	-	30,000	-
Interest on investments	-	-	16,141
Interest on loans	-	496,573	-
Miscellaneous revenue	25,173	84,445	11,884
	25,173	611,018	28,025
Total revenues	25,173	611,018	28,025
Expenditures			
Current:			
Personal services and employee benefits	2,522,097	-	-
Contractual services	254,887	-	-
Other	17,844,601	22,951,087	61,793,181
	20,621,585	22,951,087	61,793,181
Total expenditures	20,621,585	22,951,087	61,793,181
Excess (deficiency) of revenues over expenditures	(20,596,412)	(22,340,069)	(61,765,156)
Other Financing Sources (Uses)			
State General Fund appropriations	20,995,400	32,857,400	11,500,000
Bond proceeds appropriations	-	-	-
Lottery proceeds	-	-	40,728,418
Other financing sources	41,600	800,000	-
Reversion to State General Fund	(441,158)	-	-
	20,595,842	33,657,400	52,228,418
Total other financing sources (uses)	20,595,842	33,657,400	52,228,418
Change in fund balances	(570)	11,317,331	(9,536,738)
Fund balances, beginning	570	3,846,537	12,526,085
Fund balances, ending	\$ -	\$ 15,163,868	\$ 2,989,347

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

89200 Capital Projects FY2011	12150 Federal Funds	47900 Faculty Endowment	Non-major Governmental Funds	Total Governmental Funds
\$ -	\$ 8,211,014	\$ -	\$ -	\$ 8,211,014
-	-	-	367,617	367,617
-	-	-	-	30,000
-	-	-	2,548	18,689
-	-	723	-	497,296
-	-	-	16,873	138,375
-	8,211,014	723	387,038	9,262,991
-	871,287	-	238,884	3,632,268
-	763,267	-	26,636	1,044,790
15,710,240	6,576,460	-	2,439,768	127,315,337
15,710,240	8,211,014	-	2,705,288	131,992,395
(15,710,240)	-	723	(2,318,250)	(122,729,404)
-	-	5,500,000	-	70,852,800
15,710,240	-	-	-	15,710,240
-	-	-	-	40,728,418
-	-	-	2,275,024	3,116,624
-	-	(83,199)	150,587	(373,770)
15,710,240	-	5,416,801	2,425,611	130,034,312
-	-	5,417,524	107,361	7,304,908
-	-	83,163	2,763,504	19,219,859
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,500,687</u>	<u>\$ 2,870,865</u>	<u>\$ 26,524,767</u>

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, 2015

Net change in fund balance - Total Governmental Funds \$ 7,304,908
(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>4,647</u>	(4,647)

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>14,397</u>
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Change in net position of governmental activities (Statement of Activities)	<u>\$ 7,314,658</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, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal sources	\$ 10,547,200	\$ -	\$ -	\$ -
Miscellaneous	-	-	25,173	25,173
Total budgeted revenues	10,547,200	-	25,173	25,173
Expenditures				
Personal services and benefits	3,960,100	2,725,600	2,522,097	203,503
Contract services	2,080,500	324,500	254,887	69,613
Other costs	16,432,500	17,986,900	17,844,601	142,299
Total budgeted expenditures	22,473,100	21,037,000	20,621,585	415,415
Excess (deficiency) of revenue over expenditures	(11,925,900)	(21,037,000)	(20,596,412)	440,588
Other financing sources (uses)				
General fund appropriations	11,884,300	20,995,400	20,995,400	-
Other financing sources	41,600	41,600	41,600	-
Other financing (uses)	-	-	-	-
Reversions	-	-	(441,158)	441,158
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (570)</u>	

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

State of New Mexico
Higher Education Department

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

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal sources	\$ 250,000	\$ -	\$ -	\$ -
Other grants	-	-	30,000	30,000
Interest on investments	109,400	109,400	-	(109,400)
Interest on loans	-	-	496,573	496,573
Miscellaneous revenue	-	30,000	84,445	54,445
Total revenues	359,400	139,400	611,018	471,618
Prior year fund balance budgeted	2,422,100	2,422,100		
Total budgeted revenues	2,781,500	2,561,500	611,018	471,618
Expenditures				
Contractual services	53,400	53,400	-	53,400
Other costs	26,115,500	36,195,500	22,951,087	13,244,413
Total budgeted expenditures	26,168,900	36,248,900	22,951,087	13,297,813
Excess (deficiency) of revenue over expenditures	(23,387,400)	(33,687,400)	(22,340,069)	13,769,431
Other financing sources (uses)				
State General Fund appropriations	23,357,400	32,857,400	32,857,400	-
Other financing sources	30,000	830,000	800,000	(30,000)
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 11,317,331	

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, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 16,141	\$ 16,141
Other grants	-	-	-	-
Miscellaneous revenue	-	-	11,884	11,884
Total revenues	-	-	28,025	28,025
Prior year fund balance budgeted	4,900,000	12,526,085		
Total budgeted revenues	4,900,000	12,526,085	28,025	28,025
Expenditures				
Other costs	47,872,200	68,872,200	61,793,181	7,079,019
Total budgeted expenditures	47,872,200	68,872,200	61,793,181	7,079,019
Excess (deficiency) of revenue over expenditures	(42,972,200)	(56,346,115)	(61,765,156)	7,107,044
Other financing sources (uses)				
State General Fund appropriations	-	11,500,000	11,500,000	-
Other financing sources	42,972,200	42,972,200	40,728,418	(2,243,782)
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ (1,873,915)</u>	<u>\$ (9,536,738)</u>	

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

State of New Mexico
Higher Education Department

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

For the Year Ended June 30, 2015

	Original budget	Amended budget	Actuals	Variance Favorable (Unfavorable)
Revenues				
Severance tax bond appropriations	\$ 4,677,563	\$ 8,598,728	\$ 3,194,718	\$ 5,404,010
General obligation bond appropriations	<u>20,279,374</u>	<u>51,830,000</u>	<u>12,515,522</u>	<u>\$ 39,314,478</u>
Total budgeted revenues	24,956,937	60,428,728	15,710,240	39,314,478
	-			
Expenditures				
Other costs	<u>24,956,937</u>	<u>60,428,728</u>	<u>15,710,240</u>	<u>44,718,488</u>
Total budgeted expenditures	<u>24,956,937</u>	<u>60,428,728</u>	<u>15,710,240</u>	<u>44,718,488</u>
Excess (deficiency) of revenue over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

State of New Mexico
Higher Education Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS –
FEDERAL FUND (FUND 12150)**

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal sources	\$ -	\$ 10,901,845	\$ 8,211,014	\$ (2,690,831)
Miscellaneous	-	-	-	-
	-	10,901,845	8,211,014	(2,690,831)
Total budgeted revenues				
Expenditures				
Personal services and benefits	-	1,142,000	871,287	270,713
Contract services	-	1,684,900	763,267	921,633
Other costs	-	8,074,945	6,576,460	1,498,485
	-	10,901,845	8,211,014	2,690,831
Total budgeted expenditures				
Excess (deficiency) of revenue over expenditures	-	-	-	-
Other financing sources (uses)				
General fund appropriations	-	-	-	-
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Reversions	-	-	-	-
	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ -	

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
FACULTY ENDOWMENT (FUND 47900)**

For the Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 723	\$ 723
Other revenue	-	-	-	-
Total budgeted revenues	-	-	723	723
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	723	723
Other financing sources (uses)				
State General Fund appropriations	-	-	5,500,000	5,500,000
Other financing (uses)	-	-	(83,199)	(83,199)
Net change in fund balance	\$ -	\$ -	\$ 5,417,524	

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, 2015

	88100 Endowed Merit Scholars Private-Purpose Trust Fund	23900 College Affordability Endowment Trust Fund	Total Trust Fund
ASSETS			
Interest in State Treasurer General Fund Investment Pool	\$ 2,179,222	\$ -	\$ 2,179,222
Long-term investments	-	8,596,126	8,596,126
Total assets	2,179,222	8,596,126	10,775,348
NET POSITION			
Assets held for others In-trust for scholarships	\$ 2,179,222	\$ 8,596,126	\$ 10,775,348

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, 2015

	<u>88100 Endowed Merit Scholars Private-Purpose Trust Fund</u>	<u>23900 College Affordability Endowment Trust Fund</u>	<u>Total Trust Fund</u>
ADDITIONS			
Interest from investments	\$ -	\$ 200,834	\$ 200,834
Total additions	-	200,834	200,834
DEDUCTIONS			
Professional investment fees	-	28,624	28,624
Unrealized loss on investments	-	271,255	271,255
Distributions in accordance with trust agreements	-	2,000,000	2,000,000
Total deductions	-	2,299,879	2,299,879
CHANGE IN NET POSITION	-	(2,099,045)	(2,099,045)
Net position, beginning	<u>2,179,222</u>	<u>10,695,171</u>	<u>12,874,393</u>
Net position, ending	<u>\$ 2,179,222</u>	<u>\$ 8,596,126</u>	<u>\$ 10,775,348</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 and establishing the HED as a Governor's Cabinet agency.

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, 2015

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 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, 2015

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. 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 five 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
- e) Federal Fund SHARE #12150
- f) Faculty Endowment SHARE #47900

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, 2015

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 AE Instructional Material Fund
- 12150 Federal Funds
- 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, 2015

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 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, investments, 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, 2015

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, 2015. Deferred inflows of resources for the year ended June 30, 2015 amounted to \$56,000 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, 2015

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, 2015

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 cash.

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, 2015

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

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, 2015

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 balance that consists of \$13,376,897 of loans outstanding at June 30, 2015.

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 \$13,147,858 as of June 30, 2015.

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, 2015.

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, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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, 2015.

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 \$26,397,686 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

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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 \$15,153,700 (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, 2015. 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, 2015, 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, 2015, 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, 2015

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	\$ 1,976,495	\$ -	\$ 1,976,495
12150	Federal Funds	(631,908)	-	(631,908)
10990	ABE Instructional Materials	3	-	3
21600	Student Financial Aid	1,791,689	-	1,791,689
21700	College Affordability Scholarship	1,202,183	-	1,202,183
29200	College Goal Sunday Grant Fund	8,515	-	8,515
34400	Post-Secondary Education Institution Fund	858,006	-	858,006
47900	Faculty Endowment Fund	5,500,299	-	5,500,299
54500	Performance Fund	2,077	-	2,077
63700	Lottery Tuition Fund	3,402,139	-	3,402,139
64400	Capital Projects	(150,587)	-	(150,587)
78200	Performance Development Fund	139,439	-	139,439
88100	Legislative Endowment Scholarship	722,979	-	722,979
89000	ARRA Fund	17,500	-	17,500
89200	Capital Projects FY2011	314,871	-	314,871
		<u>\$ 15,153,700</u>	<u>\$ -</u>	<u>15,153,700</u>

Non-expendable Trust Fund:

88100	Legislative Endowment Scholarship Non-expendable Trust Fund included above	\$ 2,179,222
23900	College Affordability Endowment	-
	Total non-expendable cash	<u>\$ 2,179,222</u>

Reconciliation to Statement of Net Position:

Cash and investments	\$ 15,936,195
Less: overdraft	(782,495)
Total expendable cash	<u>\$ 15,153,700</u>

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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, 2015:

	Fair Value
Core Bonds Pool	\$ 2,669,188
Large Cap Activity Pool	812,084
Large Cap Index Pool	1,125,077
Small Mid Cap Pool	2,573,947
Non US Developed Markets Pool	848,483
Non US Emerging Markets Pool	567,347
	<hr/>
Total long-term investments	<u>\$ 8,596,126</u>

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

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

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

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

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

State of New Mexico
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE D – RECEIVABLES

1. Due from Other Funds

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

	<u>Due from Other Funds</u>
	64400
<u>Due to Other Funds</u>	Capital Projects Fund
91000 Operating Fund (prior year cash transfer)	\$ 150,587
Total	\$ 150,587

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	\$ 3,359,664	New Mexico Board of Finance
63700	Lottery Tuition	Lottery proceeds	3,052,921	NM Lottery Authority
63700	Lottery Tuition	Accrued investment interest	10	NM State Treasurer's Office
47900	Faculty Endowment	Accrued investment interest	388	NM State Treasurer's Office
88100	Endowed Merit	Accrued investment interest	205	NM State Treasurer's Office
Total Due from Other State Agencies			\$ 6,413,188	

3. 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
12150	Federal Funds	Federal grant receivables	\$ 2,054,668	U.S. Department of Education

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE D – RECEIVABLES – CONTINUED

4. 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).

Loan Type	Loan Balance		Advances	Payments	Srv applied	Total Accrued interest	Loan Balance
	2014						2015
ALL	\$ 523,630		108,000	(9,220)	(53,660)	152,525	\$ 721,275
BDS	199,394			-	(79,240)	54,705	174,859
HPL	19,773			(1,695)	(97)	5,637	23,618
LRP	52,592		4,450	(1,617)	-	15,259	70,684
MED	1,714,167		358,500	(22,791)	(171,255)	557,186	2,435,807
MND	824,642		82,500	(6,623)	(30,000)	239,323	1,109,842
NLS	1,638,620		479,013	(84,223)	(205,964)	478,971	2,306,417
NMS	106,230		-	(151)	-	30,617	136,696
NSE	22,146		15,000	-	(18,750)	6,253	24,649
OST	137,649			-	-	39,680	177,329
PCP	118,640		150,000	-	-	39,450	308,090
SEN	60,296			-	-	17,381	77,677
TCH	272,883		15,680	(5,077)	(30,800)	77,957	330,643
TQ1	7,723				-	2,226	9,949
WCH	10,379,770		2,117,099	(81,463)	(2,244,090)	2,983,637	13,154,953
	<u>\$ 16,078,155</u>		<u>3,330,242</u>	<u>(212,860)</u>	<u>(2,833,856)</u>	<u>4,700,807</u>	<u>21,062,488</u>
							Allowance for uncollectible accounts (7,685,591)
							Net loans receivable \$ 13,376,897

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). Please refer to the Supplemental Schedule which describes the programs in more detail.

Loans forgiven amounted to \$2,833,863 for the year ended June 30, 2015.

The loans are reported in the financial statements net of allowance for uncollectible amounts. An allowance has been established for individual interest and principal amounts that are not expected to be collected. The current allowance consists of \$4,559,782 for interest and \$3,125,809 for principal. Interest income for the year was \$496,573 of which approximately 97% of the balance is included in the allowance for doubtful accounts. Total accrued interest at June 30, 2015 is \$4,700,807.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE E – CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2015, is as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets:				
Equipment and machinery	\$ 63,420	\$ -	\$ -	\$ 63,420
Total at historical cost	63,420	-	-	63,420
Less accumulated depreciation:				
Equipment and machinery	58,773	4,647	-	63,420
Total accumulated depreciation	58,773	4,647	-	63,420
Capital assets, net	<u>\$ 4,647</u>	<u>\$ (4,647)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to function as follows:

GEAR UP program	\$ 1,815
General government	<u>2,832</u>
Total depreciation	<u>\$ 4,647</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, 2015. The General Fund liquidates compensated absences liabilities.

A summary of changes in the compensated absences payable for the year ended June 30, 2015, is as follows:

	Balance June 30, 2014	Increase	Decrease	Balance June 30, 2015	Amount Due Within One Year
Compensated absences payable					
General Fund	\$ 141,478	\$ 139,860	\$ 154,257	\$ 127,081	<u>\$ 127,081</u>

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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

1. Due to Other Agencies

SHARE Fund No.	Fund	Description	Amount	Due To
12150	Federal Funds	Program disbursement	\$ 9,728	Department of Corrections

2. Due to State General Fund

With the exception of State General Fund appropriations subject to reversion, the Department was a non-reverting agency in the year ended June 30, 2015. 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, 2015 is as follows:

<u>Year ended June 30</u>	<u>Reversion Amount</u>
2015	\$ 373,770
Prior year	243,015
Total reversions	<u>\$ 616,785</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, 2015 were \$323,148.

Future minimum payments under these operating leases are as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2016	\$ 322,493
2017	324,796
2018	329,196
2019	204,492
	<u>\$ 1,180,977</u>

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE I – OTHER FINANCING SOURCES/USES AND TRANSFERS

1. Other Financing Sources/Use

Fund No.	Fund Name/Description	Financing Sources	Financing Uses
91000	General Fund		
	Transfer to State General Fund for FY 2015 reversions	\$ -	\$ 441,158
91000	General Fund		
	Special appropriations for compensation adjustment	41,600	-
21600	Financial Aid fund		
	Transfer from PED for Pathways activity	800,000	-
47900	Faculty Endowment		
	Reversion to the State General Fund	-	83,199
10990	AE Instructional material		
	Transfer from PED	275,024	-
64400	Capital Projects ADA		
	Recovery of over-reversion	-	(150,587)
21700	College Affordability Scholarship		
	Transfer in from College Affordability Trust Fund	<u>2,000,000</u>	<u>-</u>
	Total	<u>\$ 3,116,624</u>	<u>\$ 373,770</u>

2. Inter-Agency Transfers

State Agency/ Agency Fund	Agency Number	Fund Number	Purpose	91000 General Fund	21600 Financial Aid	47900 Faculty Endowment	63700 Lottery Tuition	89200 Capital Projects FY2011	Total
Department of Finance and Administration	34100	85300	State General Fund appropriation	\$ 11,884,300	\$ 23,357,400	\$ 5,500,000	\$ -	\$ -	\$ 40,741,700
Department of Finance and Administration	34100	85300	Institutions of Higher Education Compensation appropriation	9,111,100	-	-	-	-	9,111,100
Department of Finance and Administration	34100	85300	State General Fund compensation adjustment	41,600	-	-	-	-	41,600
Department of Finance and Administration	34100	85300	Special appropriation for higher education security	500,000	-	-	-	-	500,000
Department of Finance and Administration	34100	85300	Special appropriation for Lottery scholarships	-	-	-	11,500,000	-	11,500,000
Department of Finance and Administration	34100	85300	Special Appropriations for Loan Programs	-	9,500,000	-	-	-	9,500,000
Public Education Department	92400	85600	Pathways	-	800,000	-	-	-	800,000
NM Lottery Authority	81100	63700	Lottery proceeds for scholarships	-	-	-	40,728,418	-	40,728,418
State Board of Finance	34103	85300	Bond proceeds appropriation	-	-	-	-	15,710,240	15,710,240
				<u>\$ 21,537,000</u>	<u>\$ 33,657,400</u>	<u>\$ 5,500,000</u>	<u>\$ 52,228,418</u>	<u>\$ 15,710,240</u>	<u>\$ 128,633,058</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE J – PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pensions Plans by Employers Compliant with the requirements of Government Accounting Standards Board Statement No.68, Accounting and Financial Reporting for Pensions. The State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015. The New Mexico Higher Education Department as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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, 2015, 2014, and 2013, were \$407,789, \$375,533, and \$278,664, 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires on or before the employer's RHCA effective date, in which event the time period for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who serve at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment health care plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for health care benefits. Each participating retiree pays a monthly premium according to the service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, 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, 2015, 2014, and 2013, were \$48,257, \$45,640, and \$36,960, respectively, which equal the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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.

NOTE M – STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point- forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year-end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

1. The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used;
2. Agency claims on the SGFIP will be honored in their entirety.

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, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE N – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 1, 2015, 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 O – NEW ACCOUNTING STANDARDS

GASB 72 – Fair Value Measurement and Application

This statement requires investments (a security or other asset that a government holds primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or to be sold to generate cash) to be measured at fair value. This statement establishes a hierarchy of inputs to valuation techniques, valuation of nonfinancial assets, and requires additional analysis of fair value in certain circumstances. This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement (these assets were previously required to be measured at fair value). The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for FY 16. No change in the valuation of the Institute's investments is anticipated as a result of the adoption of this standard.

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation. Similar to the provisions of GASB 68, the employer is required to recognize a liability equal to the net OPEB liability, changes in the net OPEB liability that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB, and employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources.

State of New Mexico
Higher Education Department

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE O – NEW ACCOUNTING STANDARDS - CONTINUED

Additional note disclosures and supplementary information will be required to be presented in the financial statements of the employer. GASB 75 is effective for FY 2018. The Institute will be required to record the net OPEB liability related to the NMT Employees Benefit Trust and associated deferred outflows and inflows of resources.

GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The requirements of this Statement are effective for FY 2016, and should be applied retroactively.

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS

June 30, 2015

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 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, 2015

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, 2015

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

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

MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS – CONTINUED

June 30, 2015

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 per 5.7.9 NMAC.

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, 2015

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, 2015

AE 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. Unexpended monies in the fund shall revert within three years after appropriation becomes effective, per Section 21-1-27.1, NMSA 1978. The funds shall be disbursed only to established endowments for chairs, professorships, and faculty development programs at four-year public post-secondary educational institutions.

Higher Education Performance Fund (SHARE Fund # 54500) – This fund is created in the State Treasury per Section 21-1-27.3, NMSA 2006 HB, Section 5. The fund consists of appropriation, gifts, grants, donations, and income from investment. Money in the fund shall not revert to any other fund. The fund shall be administered by the Department and money in the fund is appropriated to the Department for distributions to public post-secondary education institutions that met its performance standards in the preceding year. 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, 2015

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. 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.

State of New Mexico
Higher Education Department

COMBINING BALANCE SHEET – NON-MAJOR FUNDS

June 30, 2015

	10990 ABE Instructional Materials	21700 College Affordability Scholarship	29200 College Goal Sunday Grant	34400 Post-Secondary Educational Institution
ASSETS				
Interest in State Treasurer General				
Fund Investment Pool	\$ 3	\$ 1,202,183	\$ 8,515	\$ 858,006
Due from other funds	-		-	-
Due from other state agencies	-	-	-	-
Accounts receivable	-	-	-	-
Due from federal government	-	-	-	-
	<u>\$ 3</u>	<u>\$ 1,202,183</u>	<u>\$ 8,515</u>	<u>\$ 858,006</u>
Total assets				
	<u>\$ 3</u>	<u>\$ 1,202,183</u>	<u>\$ 8,515</u>	<u>\$ 858,006</u>
LIABILITIES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 347
Interest in State Treasurer Federal				
Fund Investment Pool - overdraft	-	-	-	-
Accrued payroll and benefits payable	-	-	-	6,205
Due to federal government	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,552</u>
Total liabilities				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,552</u>
DEFERRED INFLOWS	-	-	-	56,000
FUND BALANCES				
Spendable				
Restricted	3	1,202,183	8,515	795,454
Unassigned	-	-	-	-
	<u>3</u>	<u>1,202,183</u>	<u>8,515</u>	<u>795,454</u>
Total fund balances				
	<u>3</u>	<u>1,202,183</u>	<u>8,515</u>	<u>795,454</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 3</u>	<u>\$ 1,202,183</u>	<u>\$ 8,515</u>	<u>\$ 858,006</u>

<u>54500 Higher Education Performance</u>	<u>64400 Capital Projects</u>	<u>78200 Program Development Enhancement</u>	<u>88100 Legislative Endowment Scholarship</u>	<u>89000 ARRA</u>	<u>Total Non-Major Governmental Funds</u>
\$ 2,077	\$ -	\$ 139,439	\$ 722,979	\$ 17,500	\$ 2,950,702
-	150,587	-	-	-	150,587
-	-	10	205	-	215
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 2,077</u>	<u>\$ 150,587</u>	<u>\$ 139,449</u>	<u>\$ 723,184</u>	<u>\$ 17,500</u>	<u>\$ 3,101,504</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 347
-	150,587	-	-	-	150,587
-	-	-	-	-	6,205
-	-	-	-	17,500	17,500
<u>-</u>	<u>150,587</u>	<u>-</u>	<u>-</u>	<u>17,500</u>	<u>174,639</u>
-	-	-	-	-	56,000
2,077	-	139,449	723,184	-	2,870,865
-	-	-	-	-	-
<u>2,077</u>	<u>-</u>	<u>139,449</u>	<u>723,184</u>	<u>-</u>	<u>2,870,865</u>
<u>\$ 2,077</u>	<u>\$ 150,587</u>	<u>\$ 139,449</u>	<u>\$ 723,184</u>	<u>\$ 17,500</u>	<u>\$ 3,101,504</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, 2015

	10990 ABE Instructional Materials	21700 College Affordability Scholarship	29200 College Goal Sunday Grant	34400 Post-Secondary Educational Institution
Revenues				
Federal grant revenue	\$ -	\$ -	\$ -	\$ -
Other licenses and permits	-	-	-	367,617
Interest on investments	-	-	7	-
Miscellaneous revenue	-	16,873	-	-
Other grant revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	-	16,873	7	367,617
Expenditures				
Current:				
Personal services and employee benefits	-	-	-	238,884
Contractual services	-	-	-	26,636
Other	298,571	2,000,000	-	105,640
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	298,571	2,000,000	-	371,160
Excess (deficiency) of revenues over expenditures				
	-	-	-	-
Other financing sources (uses)				
State General Fund appropriation	-	-	-	-
Bond proceeds appropriations	-	-	-	-
Other financing sources	275,024	2,000,000	-	-
Reversion to state general fund	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	275,024	2,000,000	-	-
Excess (deficiency) of revenues over expenditures and other financing sources (uses)				
	(23,547)	16,873	7	(3,543)
Fund balances, beginning				
	<hr/>	<hr/>	<hr/>	<hr/>
	23,550	1,185,310	8,508	798,997
Fund balance, ending				
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 3	\$1,202,183	\$ 8,515	\$ 795,454

54500 Higher Education Performance	64400 Capital Projects	78200 Program Development Enhancement	88100 Legislative Endowment Scholarship	89000 ARRA	Total Non-Major Governmental Funds
\$ -	\$ -		\$ -	\$ -	\$ -
-	-	-	-	-	367,617
2	-	116	2,423	-	2,548
-	-	-	-	-	16,873
-	-	-	-	-	-
2	-	116	2,423	-	387,038
-	-	-	-	-	238,884
-	-	-	-	-	26,636
-	35,557	-	-	-	2,439,768
-	35,557	-	-	-	2,705,288
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	2,275,024
-	150,587	-	-	-	150,587
-	150,587	-	-	-	2,425,611
2	115,030	116	2,423	-	107,361
2,075	(115,030)	139,333	720,761	-	2,763,504
<u>\$ 2,077</u>	<u>\$ -</u>	<u>\$ 139,449</u>	<u>\$ 723,184</u>	<u>\$ -</u>	<u>\$ 2,870,865</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, 2015

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Other revenues	\$ 277,300	\$ 277,300	\$ 275,024	\$ (2,276)
Miscellaneous revenue	-	-	-	-
Total budgeted revenues	277,300	277,300	275,024	(2,276)
Prior year cash budgeted	-	23,547		
Total budgeted revenues	277,300	300,847		
Expenditures				
Personal services and benefits	-	-	-	-
Other costs	277,300	300,847	298,571	2,276
Total budgeted expenditures	277,300	300,847	298,571	2,276
Excess (deficiency) of revenue over expenditures	-	-	(23,547)	(23,547)
Other financing sources (uses)				
Other financing sources	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</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, 2015

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 16,873	\$ 16,873
Other revenue	-	-	-	-
 Total budgeted revenues	 -	 -	 16,873	 16,873
 Prior year cash budgeted	 -	 -		
 Total budgeted revenues	 -	 -	 16,873	 16,873
 Expenditures				
Other costs	2,000,000	2,000,000	2,000,000	-
 Total budgeted expenditures	 2,000,000	 2,000,000	 2,000,000	 -
 Excess (deficiency) of revenue over expenditures	 (2,000,000)	 (2,000,000)	 (1,983,127)	 16,873
 Other financing sources (uses)				
Other financing sources	2,000,000	2,000,000	2,000,000	-
Other financing (uses)	-	-	-	-
 Net change in fund balance	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 16,873</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 GOAL SUNDAY GRANT (FUND 29200)**

For the Year Ended June 30, 2015

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

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
POST-SECONDARY EDUCATIONAL INSTITUTION FUND (FUND 34400)**

For the Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Other licenses and permits	\$ 318,600	\$ 318,600	\$ 277,118	\$ (41,482)
Other revenue	-	-	-	-
Total budgeted revenues	-	-	277,118	(41,482)
Prior year fund balance budgeted	138,600	138,600		
Total budgeted revenues	457,200	457,200		
Expenditures				
Personal services and benefits	262,000	262,000	238,884	23,116
Contractual services	40,000	40,000	26,636	13,364
Other costs	16,600	16,600	15,141	1,459
Other financing uses	138,600	138,600	-	138,600
Total budgeted expenditures	457,200	457,200	280,661	176,539
Excess (deficiency) of revenue over expenditures	-	-	(3,543)	135,057
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,543)</u>	

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, 2015

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 2	\$ 2
Other revenue	-	-	-	-
Total budgeted revenues	-	-	-	-
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	2	2
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</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, 2015

	Original budget	Amended budget	Actuals	Variance Favorable (Unfavorable)
Revenues				
General obligation bond appropriations	\$ 533,128	\$ 533,128	\$ 2	\$ (533,126)
Total budgeted revenues	533,128	533,128	2	(533,126)
Expenditures				
Other costs	533,128	533,128	35,557	497,571
Total budgeted expenditures	533,128	533,128	35,557	497,571
Excess (deficiency) of revenue over expenditures	-	-	(35,555)	(35,555)
Other financing sources (uses)				
Other financing sources	-	-	150,587	150,587
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 115,032	

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.

State of New Mexico
Higher Education Department

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

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Interest on investments	\$ -	\$ -	\$ 116	\$ 116
Other revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total budgeted revenues	-	-	116	116
Prior year fund balance budgeted	<hr/>	<hr/>		
Total budgeted revenues	-	-		
Expenditures				
Other costs	<hr/>	<hr/>	<hr/>	<hr/>
Total budgeted expenditures	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	-	-	116	116
Other financing sources (uses)				
State General Fund appropriation	-	-	-	-
Other financing (uses)	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116</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
LEGISLATIVE ENDOWMENT SCHOLARSHIP FUND (FUND 88100)**

For the Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable)
Revenues				
Interest on investments	\$ -	\$ -	\$ 2,423	\$ 2,423
Other revenue	-	-	-	-
Total budgeted revenues	-	-	2,423	2,423
Prior year cash budgeted	-	-		
Total budgeted revenues	-	-		
Expenditures				
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total budgeted expenditures	-	-	-	-
Excess (deficiency) of revenue over expenditures	-	-	2,423	2,423
Other financing sources (uses)				
Other financing sources	-	-	-	-
Other financing (uses)	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ 2,423	

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, 2015

Special Appropriations

	<u>Appropriation Period</u>	<u>Current Year Revenue</u>	<u>Amount Appropriated</u>	<u>Current Year Expenditures</u>	<u>Project to Date Expenditures</u>	<u>Unexpended Portion</u>	<u>Unexpended and Reverted</u>
Laws of 2014, Chapter 63, S5, L78	2015	\$ 9,111,100	\$ 9,111,100	\$ 9,111,100	\$ 9,111,100	\$ -	\$ -
Laws of 2014, Chapter 63, Section 8	2015	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ 9,500,000	\$ -	\$ -
Laws of 2015, Chapter 101, S 6 L12	2015	\$ 11,500,000	\$ 11,500,000	\$ 11,500,000	\$ 11,500,000	\$ -	\$ -
Laws of 2015, Chapter 101, S5 L63 *	2016	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -
Laws of 2015, Chapter 101, S5 L63	2015	\$ 5,500,000	\$ 5,500,000	\$ -	\$ -	\$5,500,000	\$ -

* May be expended through fiscal year 2016

State of New Mexico
Higher Education Department

SCHEDULE OF CAPITAL APPROPRIATIONS

For the Year Ended June 30, 2015

Capital Appropriations

	Group	Approp. ID	Approp. End Date	Amount Sold	Amount Drawn Prior	Amount Drawn Current	Balance Held by State Board of Finance June 30, 2015
Library Acquisitions Academic L1BR St	GOB13	12-1234	6/30/2016	3,000,000	(1,768,190)	(805,008)	426,802
CNMCC South Valley & Main Campus RE	GOB13	12-1239	6/30/2016	10,500,000	(604,866)	(6,529,175)	3,365,959
CCC Infrastructure Improvement	GOB13	12-1240	6/30/2016	800,000	(94,631)	(690,703)	14,666
NMJC Infrastructure Improvement	GOB13	12-1241	6/30/2016	3,300,000	(192,947)	(2,789,178)	317,875
MCC Infrastructure & Roof Renovate	GOB13	12-1242	6/30/2016	1,000,000	(660,096)	(338,733)	1,171
HED SJC Infrastructure Improvement	GOB13	12-1243	6/30/2016	1,200,000	(451,598)	(48,703)	699,699
LCC VOC ED Complex Renovate	GOB13	12-1244	6/30/2016	4,000,000	-	(1,074,463)	2,925,537
SFCC Roofing Upgrades	GOB13	12-1245	6/30/2016	1,000,000	(748,298)	(239,559)	12,143
SFCC Sign Language Interpret Program Info	STB12SA	12-1528	6/30/2016	58,000	(21,464)	-	36,536
CNMCC Fiber Optic Loop	STB13A	13-1880	6/30/2017	1,000,000	(87,447)	(180,469)	732,084
LCC-Springer Renovate	STB13A	13-1881	6/30/2017	300,000	(3,000)	-	297,000
NMJC Infra Improve	STB13A	13-1882	6/30/2017	1,000,000	(1,000,000)	-	-
SJC School of Energy	STB13A	13-1883	6/30/2017	5,083,200	(2,649,524)	(2,433,676)	-
SFCC Health Sciences PGMS Equipment	STB13A	13-1884	6/30/2017	56,000	-	(50,943)	5,057
SFCC Sign Language Equipment & Info Tech	STB13A	13-1885	6/30/2017	48,750	(42,072)	(1,868)	4,810
SFCC Trades & Tech Bldg Construction & Ren.	STB13A	13-1886	6/30/2017	117,778	(77,658)	(27,984)	12,136
NMJC Energy Tech Training Info Tech	STB14A	14-2111	6/30/2016	425,000	-	(425,000)	-
MCC Roofing & HVAC	STB14A	14-2112	6/30/2018	140,000	-	-	140,000
SJC-West Signage	STB14A	14-2113	6/30/2018	15,000	-	-	15,000
SFCC AL T Energy Classroom/Lab Space IMP	STB14A	14-2115	6/30/2018	240,000	-	-	240,000
SFCC Media/Film Tech Upgrades	STB14A	14-2116	6/30/2016	75,000	-	(74,778)	222
2014 Academic Library Resource Acquisitions	GOB15	14-1291	6/30/2018	3,500,000	-	-	3,500,000
CNM Smith Brasher Hall Renovate	GOB15	14-1296	6/30/2018	10,000,000	-	-	10,000,000
CCC Roof Replace	GOB15	14-1297	6/30/2018	500,000	-	-	500,000
NMJC Health & Wellness Learning Ctr.	GOB15	14-1298	6/30/2018	5,000,000	-	-	5,000,000
LCC Satellite Campuses Ren-Santa Rosa/Spring	GOB15	14-1299	6/30/2018	1,380,000	-	-	1,380,000
MCC Roof & Critical Infra Improve	GOB15	14-1300	6/30/2018	650,000	-	-	650,000
SJC School of Science, Math, & Engineering Rer	GOB15	14-1301	6/30/2018	4,000,000	-	-	4,000,000
SFCC Critical Infra Improve	GOB15	14-1302	6/30/2018	2,000,000	-	-	2,000,000
LCC Buildings Re-Roof	STB14A	14-2114	6/30/2018	40,000	-	-	40,000
				<u>\$ 60,428,728</u>	<u>\$ (8,401,791)</u>	<u>\$(15,710,240)</u>	<u>\$ 36,316,697</u>

State of New Mexico
Higher Education Department

**SCHEDULE OF VENDOR INFORMATION
for Purchases exceeding \$60,000 (excluding GRT)**

For the Year Ended June 30, 2015

RFB/RFP #	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendors that responded	In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and Veterans preference given for federal funds	Brief Description of the Scope of Work
15-950-1000-00001	RFP	Atkinson & Co, LTD.	\$ 85,600	\$ 85,600	6501 Americas Parkway NE, Ste. 700, Albuquerque, NM	Y	N/A	Audit services for fiscal year 2015
15-950-1000-00001	RFP	N/A	\$ -	\$ -	Jaramillo Accounting Group (JAG) 4700 Lincoln Rd NE, Albuquerque, NM	N/A	N/A	Audit services for fiscal year 2015
15-950-1000-00001	RFP	N/A	\$ -	\$ -	REDW LLC 7425 Jefferson St. NE, Albuquerque, NM	N/A	N/A	Audit services for fiscal year 2015
40-95000-15-00782	Sole Source	LiteracyPro Systems	\$ 82,782	\$ 82,782	2355 Canyon Blvd., Ste 204, Boulder, CO	N	N/A	Maintenance of proprietary literacy systems currently used by the Adult
40-95000-14-00772	Sole Source	LiteracyPro Systems	\$ 80,371	\$ 80,371	2355 Canyon Blvd., Ste 204, Boulder, CO	N	N/A	Maintenance of proprietary literacy systems currently used by the Adult Educator providers

State of New Mexico
Higher Education Department

SCHEDULE OF MEMORANDUMS OF UNDERSTANDING

For the Year Ended June 30, 2015

Participants	Party Responsible for Operations	Description	Date	Total Estimated Costs	FY 2015 Contributions	Fiscal and Audit Responsibility	Entity Reporting Costs
NMLED and University of New Mexico (UNM)	NMLED	Shared Services for existing UNM employee	Fiscal year 2015	\$ 41,400	\$ 41,400	NMLED	NMLED
NMLED and NM State Personnel Office State Personnel Office	NMLED	Services of Public Information Officer	Fiscal year 2015	\$ 38,000	\$ 35,500	NMLED	NMLED

State of New Mexico
Higher Education Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

Federal Grantor/ Pass Through Grantor/Program Title	Grant Number or Pass Through Number	of Domestic Assistance Number	Federal Award Expenditures
U.S. Department of Education:			
Direct Programs:			
Adult Education - Basic Grants to States FFY12	V002A120031	84.002	\$ 196,742
Adult Education - Basic Grants to States FFY13	V002A130032	84.002	3,607,248
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S12005	84.334	3,528,032
No Child Left Behind FFY12	S367B110028	84.367	78,840
No Child Left Behind FFY13	S367B120028	84.367	342,127
College Access Challenge Grant	P378A120052	84.378	<u>404,290</u>
Total U.S. Department of Education Direct			8,157,279
Indirect Programs:			
Passed through Florida Department of Education Race to the Top Assessment Program - Comprehensive Assessment Systems Grant (PARCC)	NM3-PH111	84.395B	<u>18,460</u>
Total U.S. Department of Education			8,175,739
U.S. Department of Health and Human Services:			
Direct Programs:			
Grants to States for Loan Repayment Program	H56HP00099-25-01	93.165	-
Grants to States for Loan Repayment Program	H56HP00099-26-01	93.165	<u>-</u>
Total U.S. Department of Health and Human Services			0
U.S. Department of Justice			
Direct Programs:			
John R. Justice Prosecutors and Defenders Incentive Act	2011-RJ-BX-0046	16.816	<u>35,275</u>
Total U.S. Department of Justice			<u>35,275</u>
			<u>\$ 8,211,014</u>

State of New Mexico
Higher Education Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2015

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

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Amount Provided to Subrecipients</u>
Adult Education - Basic Grants to States	84.002	\$ 3,082,692
GEAR-UP	83.334	2,401,357
No Child Left Behind	84.367	<u>420,967</u>
Total provided to subrecipients		<u><u>\$ 5,905,016</u></u>



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

Dr. Barbara Damron, Cabinet Secretary
State of New Mexico
Higher Education Department
and
Mr. Timothy Keller
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, 2015, 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, 2015, as listed in the table of contents, and have issued our report thereon dated December 1, 2015.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2006-001, 2010-001 and 2015-001, which we consider to be significant deficiencies.

Compliance and Other Matters

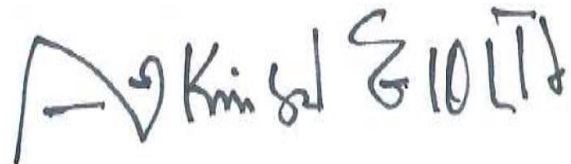
As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2015-002 and 2015-003.

Department's Response to Findings

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

Purpose of this Report

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

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 1, 2015



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

Dr. Barbara Damron, Cabinet Secretary
State of New Mexico
Higher Education Department
and
Mr. Timothy Keller
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, 2015. 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.

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2015.

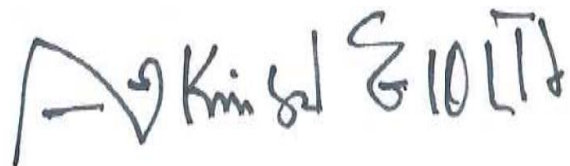
Report on Internal Control over Compliance

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.

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. *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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 1, 2015

State of New Mexico
Higher Education Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified? None identified

Type of auditors’ report issued on compliance for major programs? Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs:

Adult Education – Basic Grants to States	84.002
GEAR UP	84.334

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

Auditee qualified as a low-risk auditee? No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2015

II - STATUS OF PRIOR AUDIT FINDINGS

Financial Statement Findings

- 2006-001 Reconciliation and Tracking of Loan-for-Service Programs – Repeated and modified
- 2010-001 Entity-Level Controls over Financial Reporting – Repeated and modified
- 2010-005 Capital Projects Accounting and Reporting – Resolved
- 2010-015 Allowable Costs – Resolved
- 2010-018 Federal Grant Subrecipient Monitoring – Resolved
- 2012-001 Lack of Cash Monitoring Procedures – Resolved

Findings In Accordance With 2.2.2 NMAC

None

Federal Award Findings

- 2010-015 Allowable Costs – Resolved
- 2010-018 Federal Grant Subrecipient Monitoring – Resolved

III – FINANCIAL STATEMENT FINDINGS

- 2006-001 Reconciliation and Tracking of Loan-for-Service Programs (Significant Deficiency)
- 2010-001 Entity-Level Controls over Financial Reporting (Significant Deficiency)
- 2015-001 Loan Collection Process (Significant Deficiency)

IV – FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC

- 2015-002 Untimely Deposit of Cash (Other Noncompliance)
- 2015-003 Budgeted Expenditures in Excess of Revenues (Other Noncompliance)

V – FEDERAL AWARD FINDINGS

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS

2006-001 RECONCILIATION AND TRACKING OF LOAN-FOR-SERVICE PROGRAMS (SIGNIFICANT DEFICIENCY)

Condition

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

- Accrued interest calculated by the loan servicer for 1 of 41 loans tested was not accurate.
- 1 of 25 current year loan disbursements tested was not recorded in the loan servicer's system.

Processes have shown improvement over the past several years and the magnitude of the number and scope of the finding has decreased.

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, the loan balance could be materially misstated, and loan interest calculated and eventually collected by the servicer may not be accurate.

Cause

Department staff does not have the resources necessary to recalculate the interest due on all loans (especially loans that are past the statute of limitations [uncollectable]). Loan activity was not recorded in the general ledger until year-end.

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 and the ECSI system. The Department should draft and implement policies and procedures for calculating the loan interest and ensuring that the servicer's system agrees to that calculation.

Views of Responsible Officials and Planned Corrective Action

The Financial Aid Division identified and corrected the current-year loan disbursement that was not properly recorded in the loan servicer's system (ECSI) and therefore HED concurs with this finding. Financial Aid will review and modify its disbursement approval process to ensure that multiple parties within the division verify disbursements within the ECSI system match division records. Outstanding loans prior to the FY 2009 implementation of the ECSI loan servicing system had principal and interest capitalized when the data was migrated to the ECSI system; this capitalization to principal is the primary source of interest discrepancies in this recurring finding. Moreover, these loans are past the statute of limitations; HED uses the governing statute NMSA 1978 §37-1-1 et seq. as the policy for determining which loans are uncollectable. The statute of limitations for open accounts is four years, while the statute of limitations for written contracts is six years. The Financial Aid Division continues to work with the vendor (ECSI) on monitoring loan activities, customizing vendor reports, and obtaining

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS – CONTINUED

2006-001 RECONCILIATION AND TRACKING OF LOAN-FOR-SERVICE PROGRAMS (SIGNIFICANT DEFICIENCY) – CONTINUED

Views of Responsible Officials and Planned Corrective Action – Continued

the data required to conduct comprehensive transaction level reconciliations to the general ledger and in SHARE.

Point of Contact

Dr. Harrison Rommel, Financial Aid Director

2010-001 ENTITY-LEVEL CONTROLS OVER FINANCIAL REPORTING (SIGNIFICANT DEFICIENCY)

Condition

The Department did not have adequate controls in place to exercise effective oversight of the financial reporting process at the entity level during FY15. Financial accounting and reporting functions showed increased centralization and progress toward implemented controls during FY15, 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 expenditures, accounts payable, revenue and accounts receivable in the capital projects fund of \$3.2 million.
- An adjustment to defer \$500,000 of appropriations received that were not yet used for the intended purpose.
- An adjustment to record investments in a fiduciary fund at fair market value and recognize income and expense related to interest, fees, and withdrawals.
- Loan receivable accounts were not properly classified.

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 Administrative Services Division was significantly under-resourced, and in many cases, did not have the personnel in place to complete all required business processes. The Department is a

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS – CONTINUED

2010-001 ENTITY-LEVEL CONTROLS OVER FINANCIAL REPORTING (MATERIAL WEAKNESS) – CONTINUED

Cause – Continued

complex entity, and the lack of adequate staffing does not allow for a solid integrated control environment, centralization of business processes, or effective monitoring of the activities and risks within. There was considerable employee turnover in key management positions. Policies over records retention were not fully in place. The decentralized nature of financial transactions for the Department increases the risk of inaccurate financial reporting and recordkeeping.

Recommendation

We recommend that Management clearly communicate and document employee responsibilities and expectations, centralize financial functions as much as practical, 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 noted deficiency in financial accounting and reporting controls are being addressed through the application of specific reconciliation and review processes to occur prior to each month-end financial close. In addition, HED continues the process of performing quarterly reviews of asset and liability accounts. These internal control procedures will mitigate risks and will result in more timely and accurate financial information. The transactions listed in this finding have been corrected through the processing of adjusting journal entries, the results of which are included in this financial report.

Point of Contact

Donna Trujillo, ASD Director

2015-001 LOAN COLLECTION PROCESS (SIGNIFICANT DEFICIENCY)

Condition

The process for collecting on student loans that are not eligible for forgiveness based on completed service is not adequate. Approximately \$3.1 million of loans are estimated to be uncollectible which includes about \$470,000 of principal becoming uncollectible in the current year due to the expiration of the statute of limitations.

Criteria

Per 21-21-5 NMSA 1978, the Department, as fiscal agent of the student loans, has an obligation to undertake reasonable collection efforts.

Effect

A significant amount of student loans are not collected which reduces funds available to make new loans and requires additional appropriations from the state general fund.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS – CONTINUED

2015-001 LOAN COLLECTION PROCESS (SIGNIFICANT DEFICIENCY) - CONTINUED

Cause

The Department does not have the resources to contract with an entity to perform collections or to perform these duties in-house.

Recommendation

The Department should determine the most effective process for increasing loan collections and utilize the budget process to fund collection activities.

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. The Financial Aid Division does not have in-house resources necessary to pursue collections of outstanding/defaulted loans. While there is no budget for collection activities in FY16, it may be possible to contract with a vendor that would provide the service for a percentage of collected accounts; the Financial Aid Division will contact vendors to explore this option. HED may also be able to develop an agreement with the Taxation and Revenue Department to withhold New Mexico income tax refunds for taxpayers who have outstanding/defaulted loans.

Point of Contact

Dr. Harrison Rommel, Financial Aid Director

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC

2015-002 UNTIMELY DEPOSIT OF CASH (OTHER NONCOMPLIANCE)

Condition

During our testing of cash receipts, we noted that 14 of 50 items tested were not deposited within 24 hours of receipt.

Criteria

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

Effect

There is an increased possibility of loss or theft of cash receipts.

Cause

Inadequate staffing in the Administrative Services Division.

Recommendation

We recommend that the Department ensure that other staff can assist the Administrative Services Division with cash deposit activities when needed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2015

FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC – CONTINUED

2015-002 UNTIMELY DEPOSIT OF CASH (OTHER NONCOMPLIANCE) - CONTINUED

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. Untimely deposits were the result of staff not being available to deposit funds and also post the activity to the general ledger. The same staff person should not have the authority to perform both functions so that the segregation of duties control is maintained. For fiscal year 2016, a third position has been added to the ASD. In addition, all staff will be cross-trained to ensure resources are available to safeguard compliance.

Point of Contact

Donna Trujillo, ASD Director

2015-003 BUDGETED EXPENDITURES IN EXCESS OF REVENUES (OTHER NONCOMPLIANCE)

Condition

During our testing of budget reconciliations, we noted that budgeted expenditures exceeded budgeted revenue plus available fund balance in the Lottery Tuition Fund (#63700) by approximately \$1.9 million.

Criteria

Per 2.2.2.10 O, if budgeted expenditures exceed budgeted revenues without sufficient fund balance to cover the difference a finding must be reported.

Effect

The Department could have expended resources that were not available.

Cause

Fund balance was not reconciled prior to the posting of a Budget Adjustment Request (BAR).

Recommendation

We recommend the Department review budgets periodically, especially after the completion of the annual audit, to ensure that budgets are accurate and adjustments can be made timely.

Views of Responsible Officials and Planned Corrective Action

HED concurs with this finding. All fund balance to be budgeted will be reconciled to the:

- financial system (SHARE); and
- prior year financial statement ending fund balance.

This will ensure that fund balance intended to be utilized for current year expenditures does exist and is in a spendable classification.

Point of Contact

Donna Trujillo, ASD Director

State of New Mexico
Higher Education Department

EXIT CONFERENCE

Year Ended June 30, 2015

EXIT CONFERENCE

An exit conference was held on November 24, 2015 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. Barbara Damron, Cabinet Secretary

Andrew Jacobson, Deputy Cabinet Secretary

Donna Trujillo, CPA, CISA, Administrative Services Director/Chief Financial Officer

Various other program personnel

Atkinson & Co., Ltd.

Marty Mathisen, CPA, CGFM, Audit Director

Sarah Brack, CPA, CGFM, CGMA, Audit Manager

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