

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

VIA EMAIL AND U.S. MAIL

June 21, 2017

Dr. Barbara Damron
Secretary
New Mexico Higher Education Department
2044 Galisteo Street, Suite 4
Santa Fe, NM 87505-2100

Dear Secretary Damron:

The Office of the State Auditor (“OSA”) has released the Fiscal Year 2016 financial and compliance audit for the New Mexico Higher Education Department (“HED”). The OSA conducted the audit in partnership with the independent public accounting firm REDW LLC.

The audit contains modified opinions with respect to multiple funds and 18 findings pertaining to various deficiencies, weaknesses and areas of noncompliance. The shortcomings identified in the report relate to a broad array of issues, including untimely reconciliations; erroneous financial reporting; overspending; failure to revert money to the General Fund; an inadequate student loan collection process; deficient payroll controls; incomplete human resource files; problematic capital asset tracking; and the lack of a Chief Procurement Officer.

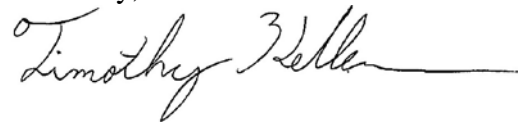
One material weakness that is of particular concern is the finding, repeated since fiscal year 2010, that HED lacks adequate controls to exercise effective oversight of financial reporting and was not following entity-wide policies and procedures. Moreover, HED did not make progress toward implementing last year’s corrective action plan. As indicated in the report, this resulted in multiple errors necessitating adjustments, including recording investments in the wrong fund; recording about \$3,000,000 in Lottery Tuition Fund proceeds in the wrong fiscal year; overstating federal grants receivables; overstating deferred revenues; and unrecorded capital assets.

Accurate financial reporting is critical to the ability of management, policymakers and the public to make informed decisions. However, this requires the agency to adequately staff financial positions with employees that have appropriate qualifications. Many of the findings, as well as the modified audit opinions, stem from vacancies and turnover in key positions, which have been made worse by the state’s recent hiring freeze. It is absolutely essential that agencies ensure key financial positions are filled. The failure to do so greatly increases the risk of fraud, waste and abuse, and will ultimately cost the state more in losses than any short-term savings achieved in holding positions vacant.

2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507
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We appreciate management's acknowledgement of the issues raised in the report and the need for corrective actions, as well as HED's cooperation during the engagement.

Sincerely,

A handwritten signature in cursive script that reads "Timothy M. Keller". The signature is written in black ink and includes a horizontal line extending to the right from the end of the name.

Timothy M. Keller
State Auditor



State of New Mexico

Higher Education Department

Financial Statements

and

Independent Auditor's Report

June 30, 2016

State of New Mexico Higher Education Department

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State of New Mexico
Higher Education Department

Official Roster

June 30, 2016

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

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Dr. Barbara Damron, Cabinet Secretary
State of New Mexico
Higher Education Department
Santa Fe, New Mexico

Report on 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 State of New Mexico, Higher Education Department (the Department), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's nonmajor funds, and the budgetary comparisons for all nonmajor funds, presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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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 qualified and unmodified audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund (91000)	Qualified
Financial Aid Fund (21600)	Qualified
Lottery Tuition Fund (63700)	Unmodified
Capital Projects Fund (89200)	Unmodified
Federal Funds (12150)	Unmodified
Faculty Endowment Fund (47900)	Unmodified
Aggregate Remaining Fund Information	Qualified
Individual Nonmajor Fund: Post-Secondary Educational Institution (34400)	Qualified
Individual Nonmajor Funds: ABE Instructional Materials (10990), College Affordability Scholarship (21700), College Goal Sunday Grant (29200), Higher Education Performance (54500), Capital Projects (64400), Program Development Enhancement (78200), Legislative Endowment Scholarship Fund (88100), ARRA (89000)	Unmodified
Endowed Merit Scholars Private-Purpose Trust Fund (88100)	Unmodified
College Affordability Endowment Trust Fund (23900)	Unmodified

Basis for Qualified Opinions

We were unable to obtain sufficient appropriate audit evidence relating to the completeness, classification, accuracy and valuation of the revenues of the Governmental Activities, the General Fund (91000), the Financial Aid Fund (21600), the Post-Secondary Educational Institution Fund (34400), and the aggregate remaining fund information of the Department. The Department was unable to provide supporting documentation for 25 of 74, or 34 percent, of sampled cash receipts transactions. The lack of supporting documentation primarily affected revenues received by check and money order. Accounting principles generally accepted in the United States of America require that such supporting documentation be maintained by management. The amount by which this departure would affect the individual fund revenues of the Governmental Activities, the General Fund (91000), the Financial Aid Fund (21600), the Post-Secondary Educational Institution Fund (34400), and the aggregate remaining fund information of the Department has not been determined.

Qualified Opinions

In our opinion, except for the possible effects of the matters described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, the General Fund (91000), the Financial Aid Fund (21600), the Post-Secondary Educational Institution Fund (34400), and the aggregate remaining fund information, of the Department, as of June 30, 2016 and the respective changes in financial position and budgetary comparisons of those funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lottery Tuition Fund (63700), the Capital Projects Fund (89200), the Federal Funds (12150), the Faculty Endowment Fund (47900), the Individual Nonmajor Funds: ABE Instructional Materials (10990), College Affordability Scholarship (21700), College Goal Sunday Grant (29200), Higher Education Performance (54500), Capital Projects (64400), Program Development Enhancement (78200), Legislative Endowment Scholarship Fund (88100), ARRA (89000), the Endowed Merit Scholars Private-Purpose Trust Fund (88100), and the College Affordability Endowment Trust Fund (23900) of the Department as of June 30, 2016, and the respective changes in financial position and, where applicable, budgetary comparisons of those funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Restatements

As discussed in Note 13, the fiscal year 2015 ending balances for two asset accounts, which are listed below, could not be substantiated by audit evidence obtained. Loans and interest receivable, net of allowance, in the Financial Aid Fund (21600) could not be substantiated, resulting in a restatement to decrease the loans and interest receivable, net of allowance, and related fund balance by \$363,463. Due from other state agencies for the Capital Projects Fund (89200) could not be substantiated resulting in a restatement which decreased the amount due from other state agencies and the related fund balance by \$201,809. The accounts described above have been restated to reflect fiscal year 2015 ending balances that were substantiated through audit evidence obtained. Relevant disclosures that fully describe this matter can be found in Note 13. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 2, 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, 2016, and the changes in its financial position for the year ended in accordance 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 2, 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.

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 6–13 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

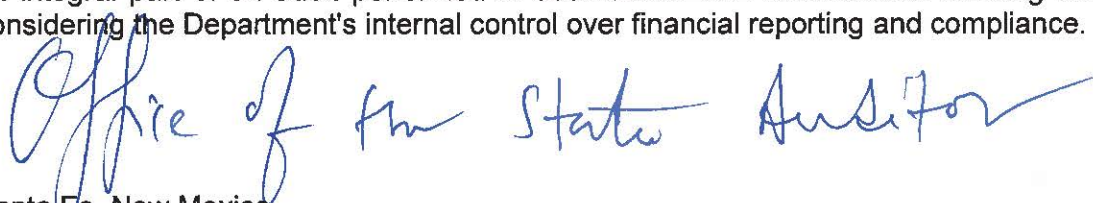
Our audit was conducted for the purpose of forming opinions on the Department’s basic financial statements, the combining and individual fund financial statements, the fiduciary fund statements, and the budgetary comparisons. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The other supplemental schedules, including the schedule of special appropriations, the schedule of capital appropriations, and the schedule of memorandums of understanding required by 2.2.2 NMAC 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 and the other supplemental schedules required by 2.2.2 NMAC 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 Expenditures of Federal Awards, and the other supplemental schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Vendor Information 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 June 9, 2017, 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.



Santa Fe, New Mexico
June 9, 2017

State of New Mexico

Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

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, 2016. 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 roles and responsibilities of the New Mexico Higher Education Department (HED) have evolved and expanded over time. In 1951, the New Mexico Board of Educational Finance was established, which then in 1986 became the Commission on Higher Education (21-2-1 NMSA 1978). In 2005, the Commission on Higher Education became the HED (21-1-26 NMSA 1978) and was established at that point in order to provide financial, academic, and policy oversight to New Mexico's twenty seven state-funded universities and community colleges. The HED has statutory authority with regard to New Mexico's higher education institutions (HEIs) in the following areas:

- ◆ Institution Budget Review and Approval;
- ◆ Recommendations for Higher Education Institution State Funding;
- ◆ Capital Project Review and Approval;
- ◆ Data Collection and Verification;
- ◆ Administration of State Financial Aid Programs;
- ◆ Oversight of Statewide Adult Education Programs;
- ◆ System-wide Policy Coordination;
- ◆ Statewide Planning and Assessment;
- ◆ Review of all new Academic Programs;
- ◆ Processing Changes in College Districts and New Campuses.
- ◆ Regulation of Private, Proprietary, and Out-of-State Institutions; and
- ◆ Policy Analysis, Research, and Fiscal Impact Analysis.

State of New Mexico

Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

In addition to these statutory responsibilities, the HED strives to bring leadership, guidance, and assistance to New Mexico's higher education stakeholders. The HED is committed to promoting best practices, institutional fiscal responsibility, and student achievement.

During 2016, the Policy and Programs Division continued working on four major initiatives that will improve cohesiveness between New Mexico's public and tribal higher education institutions (HEIs). These initiatives seek to create a statewide higher education system that will facilitate credit transfer and articulation between all of New Mexico's public HEIs. This work includes:

1. Identifying equivalent courses, alignment of student learning outcomes, and assignment of a common course number for all lower division coursework. This will ensure that courses will transfer between all HEIs and that students will achieve the same learning outcomes in the equivalent courses statewide;
2. Developing institutional degree plans, cross-institutional degree plans, and statewide meta-majors to improve articulation of curriculum between institutions;
3. Building a general education curriculum around the essential skills that every college graduate should have; and
4. Reforming and improving the delivery of remedial education across the state to decrease the number of semesters that students spend in remediation.

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.

Department-wide Financial Statements: 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.

State of New Mexico

Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

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, 2016. 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 2016 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.

Fiduciary Funds

Fiduciary funds are used to account for resources the Department holds for others. The Department oversees two fiduciary funds, the Endowed Merit Scholars and College Affordability funds. These two funds were created pursuant to the Legislative Endowment Scholarship Act and the College Affordability Endowment Act. The finances of these funds are reported in a separate statement of

State of New Mexico

Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

fiduciary net position, and 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. This is not considered a component unit of the Higher Education Department, pursuant to requirements under the Governmental Accounting Standards Board Statement number 61.

Financial Statements

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.

Supplementary Information: Supplementary information is provided to report the combining financial statements of nonmajor 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.

State of New Mexico

Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

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.
- ◆ The Endowed Faculty Fund (SHARE Fund 47900) purpose 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.

Financial Analysis of the Department as a Whole

Net Position

The Department's net position at June 30, 2016 was approximately \$21.3 million a decrease of \$5.0 million over 2015. This decrease was the result of reduced state appropriations received in FY 2016 compared to FY 2015. Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2016. Total assets decreased by just 4.6% over 2015 while liabilities increased about 36%.

State of New Mexico
Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

Table A-1 Detail of Department Condensed Net Position
as of June 30, 2016 and 2015 (thousands)

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Assets			
Current assets	\$ 22,577	\$ 24,403	\$ (1,826)
Non-current assets	13,941	13,378	563
Capital assets, net of accumulated depreciation	<u>22</u>	<u>-</u>	<u>22</u>
	<u>36,540</u>	<u>37,781</u>	<u>(1,241)</u>
Liabilities			
Current liabilities	14,937	11,200	3,737
Compensated absences	<u>141</u>	<u>127</u>	<u>14</u>
Total liabilities	<u>15,078</u>	<u>11,327</u>	<u>3,751</u>
Deferred inflows	147	56	91
Net Position			
Investments in capital assets, net of debt	22	-	22
Restricted	21,293	26,398	(5,105)
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 21,315</u>	<u>\$ 26,398</u>	<u>\$ (5,083)</u>

Changes in Net Position

The Department's change in net position at June 30, 2016 was a negative \$4.5 million while the Department had experienced an increase in net position for 2015 of \$7.3 million. The decrease for this year is primarily due to a reduction in state appropriations for FY16. Table A-2 summarizes the Department's changes in net position for the fiscal year ended June 30, 2016.

State of New Mexico
Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

Table A-2 Statement of Activities

as of June 30, 2016 and 2015 (thousands)

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Program revenues			
Program revenues	\$ 9,377	\$ 8,488	\$ 889
Total program revenues	9,377	8,488	889
General revenues (expenses)			
State appropriations	52,506	70,853	(18,347)
Other financing sources	1,709	3,116	(1,407)
Education expenses	(132,147)	(131,971)	(176)
Reversions	(224)	(373)	149
Proceeds of State General obligation and severance tax bonds	12,348	15,710	(3,362)
Proceeds from Lottery	47,782	40,728	7,054
Miscellaneous	3,559	168	3,391
Total general revenues (expenses)	(14,467)	(1,769)	(12,698)
Investment income	543	594	(51)
Total other investment income (expenses)	543	594	(51)
Change in net position	(4,547)	7,313	(11,860)
Net position, beginning	25,862	19,085	6,777
Restatement	-	(536)	536
Net position, ending	<u>21,315</u>	<u>25,862</u>	<u>(4,547)</u>

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.

For FY17, the Legislature initially appropriated a total of \$109,566.4 (in thousands) to the Higher Education Department, including \$36,620.1 in General Fund. Compared to FY15 funding levels, this was

State of New Mexico

Higher Education Department

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2016

a -1.3% decrease overall, but a slight increase in General Fund dollars. Subsequently, the special session in the fall of 2016 reduced agency General Fund budgets by -5.5%. This resulted in a revised FY17 budget that was down over 3% from FY16 and down almost 5% in terms of General Fund dollars.

The Department's budgetary statements are shown both in the major fund financial statements and the required supplemental information portion of the financial statements.

General Budgetary Highlights

The Department budgets at the category level by appropriation level. For the year ending June 30, 2016, there was a budget overrun in the General Fund 91000.

The Department wide operating budget, as well as its non-operating budgets for fiscal year 2016, are contained in the General Appropriations Act, Laws of 2015, Chapter 101.

Economic and Budgetary Factors

The state of New Mexico is currently facing a very difficult fiscal environment in part due to its significant reliance on revenue from extractive industries, primarily oil and gas. With the recent decline in oil prices, a large amount of projected FY17 and FY18 revenues to the General Fund did not materialize. State agency budgets have already been reduced in FY17 and could face further budget reductions going into FY18 as the state works to fill the revenue gap and restore reserves to a prudent level. In response to declining General Fund support, the Department and other state agencies are having to maintain high vacancy rates, and there have been multiple hiring freezes in the past year which also impact staffing levels. Finding and keeping qualified employees, particularly in ASD related jobs, continues to be a challenge in this budget environment.

Contact Information

New Mexico Higher Education Department 2048 Galisteo St.

Santa Fe, NM 87505-2100 Phone: (505) 476-8413

www.hed.state.nm.us

Government-Wide
Financial Statements

State of New Mexico
Higher Education Department

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets	
Current assets	
Investment in State General Fund Investment Pool	\$ 9,570,163
Due from other state agencies	8,911,309
Due from federal government	<u>4,095,140</u>
Total current assets	22,576,612
Noncurrent assets	
Loans and interest receivable, net of allowance for doubtful accounts	13,940,671
Capital assets	36,859
Less accumulated depreciation	<u>(15,192)</u>
Total noncurrent assets	13,962,338
Total assets	<u>\$ 36,538,950</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 8,561,288
Investment in State General Fund Investment Pool overdraft	2,303,164
Accrued salaries and benefits payable	115,466
Interfunds	-
Due to state general fund	399,490
Due to other state agencies	32,120
Due to federal government	17,500
Compensated absences due within one year	140,843
Stale dated warrants	7,400
Other liabilities	<u>3,500,104</u>
Total current liabilities	<u>15,077,375</u>
Total liabilities	<u>15,077,375</u>
Deferred Inflows	
Private school licensing and registration fees	147,132
Net Position	
Net investment in capital assets	21,667
Restricted	<u>21,292,776</u>
Total net position	<u>21,314,443</u>
Total liabilities, deferred inflows, and net position	<u>\$ 36,538,950</u>

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues		
Expenses	Charges for Services	Operating Grants	Net Revenue (Expense) and Changes in Net Position
Functions/Programs			
Governmental Activities			
General government	\$ 12,478,476	\$ -	\$ -
Depreciation	8,213	-	(8,213)
Program Activities			
General government			
Adult basic education	4,140,040	-	4,182,917
Gear-up	4,304,752	-	4,226,899
No child left behind	532,297	-	532,297
John justice	49,800	-	62,250
Financial aid programs	28,397,833	-	(28,397,833)
Faculty endowment	5,210,000	-	(5,210,000)
Lottery scholarships	61,766,963	-	(61,766,963)
Capital projects flowthrough	14,321,017	-	(14,321,017)
Other funds	458,863	372,539	-
Total governmental activities	\$ 131,668,254	\$ 372,539	\$ 9,004,363
General Revenues (Expenses) and Transfers			
Transfers in - State general fund appropriations			52,506,359
Bond proceeds			11,869,122
Lottery proceeds			47,781,673
Other financing sources			1,709,037
Transfers out - Reversion to state general fund			(223,863)
Miscellaneous revenue			3,558,679
Investment earnings			542,493
Total general revenues (expenses)			117,743,500
Change in net position			(4,547,852)
Net position, beginning of year			26,397,686
Restatement			(535,391)
Net position, beginning of year, as restated			25,862,295
Net position, end of year			\$ 21,314,443

The accompanying notes are an integral part of these financial statements.

Governmental Funds
Financial Statements

State of New Mexico
Higher Education Department
Balance Sheet—Governmental Funds
June 30, 2016

	General Operating Fund - 91000	Financial Aid - 21600	Lottery Tuition - 63700
ASSETS			
State General Fund Investment Pool	\$ 1,318,063	\$ 2,969,920	\$ 2,219,376
Federal Grants Receivable	-	-	-
Due from Other Funds	-	-	-
Due from Other State Agencies	8,751	-	6,665,396
Total Assets	<u>\$ 1,326,814</u>	<u>\$ 2,969,920</u>	<u>\$ 8,884,772</u>
Non-current Assets:			
Loans and interest receivable, net of allowance for doubtful Accounts	-	13,940,671	-
	<u>\$ 1,326,814</u>	<u>\$ 16,910,591</u>	<u>\$ 8,884,772</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Voucher Payable	\$ 695,324	\$ 329,809	\$ -
Interest in STGFIP Overdraft	-	-	-
Payroll Benefits & Taxes Payable	63,474	-	-
Due to Other Funds	150,587	-	-
Payable to other governments	-	-	-
Due to State General Fund	399,490	-	-
Stale Dated Warrants	450	6,950	-
Other Liabilities	17,489	16,017	3,465,713
Due to Other State Agencies	-	-	-
Total Liabilities	<u>1,326,814</u>	<u>352,776</u>	<u>3,465,713</u>
Deferred Inflows	-	-	-
Fund Balances:			
Nonspendable:			
Loans receivable	-	13,940,671	-
Restricted:			
Special Purposes	-	2,617,144	5,419,059
Unassigned:			
Unassigned	-	-	-
Total Fund Balances	<u>-</u>	<u>16,557,815</u>	<u>5,419,059</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,326,814</u>	<u>\$ 16,910,591</u>	<u>\$ 8,884,772</u>

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Balance Sheet—Governmental Funds
June 30, 2016

Capital Projects FY11 -89200	Federal Funds - 12150	Faculty Endowment - 47900	Other Governmental Funds	Total Governmental Funds
\$ 754,588	\$ -	\$ 298,625	\$ 2,009,591	\$ 9,570,163
-	4,095,140	-	-	4,095,140
-	-	-	150,587	150,587
2,237,162	-	-	-	8,911,309
<u>\$ 2,991,750</u>	<u>\$ 4,095,140</u>	<u>\$ 298,625</u>	<u>\$ 2,160,178</u>	<u>\$ 22,727,199</u>
-	-	-	-	13,940,671
<u>\$ 2,991,750</u>	<u>\$ 4,095,140</u>	<u>\$ 298,625</u>	<u>\$ 2,160,178</u>	<u>\$ 36,667,870</u>
\$ 5,645,454	\$ 1,885,019	\$ -	\$ 5,682	\$ 8,561,288
-	2,152,577	-	150,587	2,303,164
-	46,620	-	5,372	115,466
-	-	-	-	150,587
-	-	-	17,500	17,500
-	-	-	-	399,490
-	-	-	-	7,400
-	885	-	-	3,500,104
-	32,120	-	-	32,120
<u>5,645,454</u>	<u>4,117,221</u>	<u>-</u>	<u>179,141</u>	<u>15,087,119</u>
-	-	-	147,132	147,132
-	-	-	-	13,940,671
-	-	298,625	1,833,905	10,168,733
(2,653,704)	(22,081)	-	-	(2,675,785)
<u>(2,653,704)</u>	<u>(22,081)</u>	<u>298,625</u>	<u>1,833,905</u>	<u>21,433,619</u>
<u>\$ 2,991,750</u>	<u>\$ 4,095,140</u>	<u>\$ 298,625</u>	<u>\$ 2,160,178</u>	<u>\$ 36,667,870</u>

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department

**Reconciliation of the Balance Sheet—Governmental Funds to the
Statement of Net Position
June 30, 2016**

Total fund balance, governmental funds		\$ 21,433,619
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Governmental Capital Assets	36,859	
Accumulated Depreciation	<u>(15,192)</u>	
		21,667
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:		
Compensated Absences		(140,843)
		<hr style="width: 100%;"/>
Net position of governmental activities in the statement of net position		<u><u>\$ 21,314,443</u></u>

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and
Changes in Fund Balance—Governmental Funds
For the Year Ended June 30, 2016

	General Operating Fund - 91000	Financial Aid - 21600	Lottery Tuition - 63700
REVENUES			
Federal Grants	-	-	-
Other Licenses and Permits	28,779	-	-
Interest on Investments	-	513,559	14,047
Miscellaneous Revenue	10,447	3,534,405	10,096
Total Revenues	39,226	4,047,964	24,143
EXPENDITURES			
Current:			
Personnel Services & Employee Benefits	2,520,191	-	-
Contractual Services	238,162	-	-
Other	9,706,360	26,407,354	61,766,963
Total Expenditures	12,464,713	26,407,354	61,766,963
Excess (Deficiency) of Revenues Over Expenditures	(12,425,487)	(22,359,390)	(61,742,820)
OTHER FINANCING SOURCES (USES)			
General Fund Appropriation	11,998,700	24,116,800	16,390,859
Bond Proceeds Appropriations	-	-	-
Lottery Proceeds	-	-	47,781,673
Other financing source	650,650	-	-
Reversions to State General Fund	(223,863)	-	-
Total Other Financing Sources and Uses	12,425,487	24,116,800	64,172,532
Net Change in Fund Balances	-	1,757,410	2,429,712
Fund Balances - beginning, as restated	-	15,163,868	2,989,347
Restated	-	(363,463)	-
Fund Balance, beginning of year, as restated	-	14,800,405	2,989,347
Fund Balances - ending	\$ -	\$ 16,557,815	\$ 5,419,059

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and
Changes in Fund Balance—Governmental Funds (continued)
For the Year Ended June 30, 2016

Capital Projects FY11 -89200	Federal Funds - 12150	Faculty Endowment - 47900	Other Governmental Funds	Total Governmental Funds
-	9,031,032	-	\$ -	\$ 9,031,032
-	-	-	343,760	372,539
-	-	7,938	6,949	542,493
-	445	-	3,286	3,558,679
-	9,031,477	7,938	353,995	13,504,743
-	963,947	-	173,193	3,657,331
-	430,476	-	4,776	673,414
14,321,017	7,659,135	5,210,000	2,271,373	127,342,202
14,321,017	9,053,558	5,210,000	2,449,342	131,672,947
(14,321,017)	(22,081)	(5,202,062)	(2,095,347)	(118,168,204)
-	-	-	-	52,506,359
11,869,122	-	-	-	11,869,122
-	-	-	-	47,781,673
-	-	-	1,058,387	1,709,037
-	-	-	-	(223,863)
11,869,122	-	-	1,058,387	113,642,328
(2,451,895)	(22,081)	(5,202,062)	(1,036,960)	(4,525,876)
-	-	5,500,687	2,870,865	26,524,767
(201,809)	-	-	-	(565,272)
(201,809)	-	5,500,687	2,870,865	25,959,495
\$ (2,653,704)	\$ (22,081)	\$ 298,625	\$ 1,833,905	\$ 21,433,619

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$	(4,525,876)
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Depreciation Expense	(8,213)
Change in Compensated Absences	(13,763)
Change in Net Position	<u>\$ (4,547,852)</u>

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual—
Major Governmental Funds—General Fund (Fund 91000)
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	28,779	28,779
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	10,447	(10,447)
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>39,226</u>	<u>18,332</u>
EXPENDITURES				
Personnel Services & Employee Benefits	2,436,400	2,611,400	2,520,191	91,209
Contractual Services	289,200	251,700	238,162	13,538
Other	9,273,100	9,323,100	9,706,360	(383,260)
Total Expenditures	<u>11,998,700</u>	<u>12,186,200</u>	<u>12,464,713</u>	<u>(278,513)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,998,700)</u>	<u>(12,186,200)</u>	<u>(12,425,487)</u>	<u>296,845</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	11,998,700	11,998,700	11,998,700	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	650,650	(650,650)
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	(223,863)	223,863
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>11,998,700</u>	<u>11,998,700</u>	<u>12,425,487</u>	<u>(426,787)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ (187,500)</u>	<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual—
Major Governmental Funds—Financial Aid Programs (Fund 21600)
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Interest on Investments	-	-	513,559	513,559
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	\$ 40,241	40,241
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>553,800</u>	<u>553,800</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	53,400	53,400	-	53,400
Other	24,422,800	26,022,800	23,482,316	2,540,484
Education	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>24,476,200</u>	<u>26,076,200</u>	<u>23,482,316</u>	<u>2,593,884</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(24,476,200)</u>	<u>(26,076,200)</u>	<u>(22,928,516)</u>	<u>(2,040,084)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	24,640,400	24,116,800	24,116,800	-
Bond Proceeds Appropriations	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>24,640,400</u>	<u>24,116,800</u>	<u>24,116,800</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ 164,200</u>	<u>\$ (1,959,400)</u>	<u>\$ 1,188,284</u>	
Non Budget Adjustments				
Miscellaneous Revenue			3,494,164	
Miscellaneous Expenditures			<u>(2,925,038)</u>	
Total Non Budget Adjustments			<u>\$ 569,126</u>	

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual—
Major Governmental Funds—Lottery Tuition Fund (Fund 63700)
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	14,047	14,047
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	10,096	10,096
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>24,143</u>	<u>24,143</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	61,979,000	63,579,000	61,766,963	1,812,037
Education	-	-	-	-
Debt Service:	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>61,979,000</u>	<u>63,579,000</u>	<u>61,766,963</u>	<u>1,812,037</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(61,979,000)</u>	<u>(63,579,000)</u>	<u>(61,742,820)</u>	<u>(1,787,894)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	16,390,859	16,390,859
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	61,979,000	63,579,000	47,781,673	(15,797,327)
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>61,979,000</u>	<u>63,579,000</u>	<u>64,172,532</u>	<u>593,532</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,429,712</u>	

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual—
Major Governmental Funds—Capital Projects Fund FY 2011 (Fund 89200)
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Severance tax bond appropriations	\$ 1,060,830	\$ 1,060,830	\$ 907,891	\$ (152,939)
General obligation bond appropriations	10,815,435	10,815,435	10,961,231	145,796
Total budgeted revenues	<u>11,876,265</u>	<u>11,876,265</u>	<u>11,869,122</u>	<u>(7,143)</u>
EXPENDITURES				
Other	22,258,000	22,258,000	14,321,017	7,936,983
Total budgeted expenditures	<u>22,258,000</u>	<u>22,258,000</u>	<u>14,321,017</u>	<u>7,936,983</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(10,381,735)</u>	<u>(10,381,735)</u>	<u>(2,451,895)</u>	<u>7,929,840</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (10,381,735)</u>	<u>\$ (10,381,735)</u>	<u>\$ (2,451,895)</u>	

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual—
Major Governmental Funds—Federal Fund (Fund 12150)
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ 9,462,200	\$ 11,213,705	9,031,032	\$ (2,182,673)
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	445	445
Other Fees	-	-	-	-
Total Revenues	<u>9,462,200</u>	<u>11,213,705</u>	<u>9,031,477</u>	<u>(2,182,228)</u>
EXPENDITURES				
Personnel Services & Employee Benefits	1,131,400	1,131,400	963,947	167,453
Contractual Services	452,600	783,629	430,476	353,153
Other	7,878,200	9,298,676	7,659,135	1,639,541
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>9,462,200</u>	<u>11,213,705</u>	<u>9,053,558</u>	<u>2,160,147</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(22,081)</u>	<u>(22,081)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (22,081)</u>	

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes
in Fund Balance—Budget to Actual (Multi-Year)—
Major Governmental Funds—Faculty Endowment (Fund 47900)
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	7,938	7,938
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>7,938</u>	<u>7,938</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	5,315,000	5,315,000	5,210,000	105,000
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>5,210,000</u>	<u>105,000</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(5,202,062)</u>	<u>(97,062)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,202,062)</u>	

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Fiduciary Net Position
June 30, 2016

	Endowed Merit Scholars Private- Purpose Trust Fund 88100	College Affordability Endowment Trust Fund 23900	Total Trust Fund
ASSETS			
Interest in State Treasurer General Fund Investment Pool	\$ 2,179,222	\$ -	\$ 2,179,222
Due from other funds	-	-	-
Long-term investments		7,598,044	7,598,044
Total Assets	2,179,222	7,598,044	9,777,266
NET POSITION			
Assets held for others			
In-trust for scholarships	2,179,222	7,598,044	9,777,266
	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Statement of Changes in Fiduciary Net Position
June 30, 2016

	Endowed Merit Scholars Private- Purpose Trust Fund 88100	College Affordability Endowment Trust Fund 23900	Total Trust Fund
ADDITIONS			
Interest from investments	\$ -	\$ 189,724	\$ 189,724
DEDUCTIONS			
Professional investments fees	-	25,064	25,064
Unrealized loss on investments	-	362,742	362,742
Distributions in accordance with trust agreements	-	800,000	800,000
Total Deductions	-	1,187,806	1,187,806
CHANGE IN NET POSITION	-	(998,082)	(998,082)
Net Position, beginning	2,179,222	8,596,126	10,775,348
Net Position, ending	\$ 2,179,222	\$ 7,598,044	\$ 9,777,266

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Higher Education Department
Notes to Financial Statements
June 30, 2016

1) 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 and Administration. The Department evaluates and approves proposals for new graduate degree programs and major capital projects.

2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in conformity with 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:

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

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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 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.

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. The government-wide 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.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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 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.

Basic Financial Statements – Fund Financial Statements

The fund financial statements' emphasis is on the major funds of each governmental category. Nonmajor funds are summarized into a single column. The Department has five special revenue funds and one general fund presented as major funds as follows:

- ◆ General Fund, SHARE #91000
- ◆ Financial Aid Fund, SHARE #21600
- ◆ Lottery Tuition Fund, SHARE #63700
- ◆ Capital Projects FY2011 Fund, SHARE #89200
- ◆ Federal Fund SHARE #12150
- ◆ Faculty Endowment SHARE #47900

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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.

Current accounting standards set forth the minimum criteria for the determination of major funds. The nonmajor 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.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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)

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.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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.

Basis of Accounting

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The **government-wide financial statements** are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange 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, 2016. Deferred inflows of resources for the year ended June 30, 2016

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

amounted to \$147,132 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.

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 and Administration within the limitations specified in the annual General Appropriation Act. Budget amounts identified as "final" in the financial statements (budget comparison statements) are the final authorized expenditure levels, including any approved revisions (budget adjustment requests).

The Department follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) No later than September 1, the Department submits to the Legislative Finance Committee (LFC) and the Budget Division of the Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and number of positions, and the means of financing them.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

- 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 and Administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. The actual expenditures in the budgetary comparison exclude any accounts payable that were not paid timely and therefore required a "Request to Pay Prior Year Bills" out of current year budget. They will be paid out of the budget of the following fiscal year. An agency's reversions should be calculated using the budget basis expenditures because the agency does not have the legal right to keep the cash related to accounts payable that were not paid timely. This could result in a negative fund balance in the modified accrual basis financial statements of a reverting fund. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget.

In accordance with the requirements of Section 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.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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.

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.

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.

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.

Accrued Compensated Absences

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

Employees accumulate annual leave at a rate based on appointment date and length of service. A maximum of 240 hours of annual leave may be carried forward at the end of the last pay period

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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.

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.

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.

Fund Balances

In the governmental fund financial statements, the Department classifies fund balances into spendable and nonspendable classifications. The nonspendable 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

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

purpose. The Department has nonspendable fund balance that consists of \$13,940,671 of loans outstanding at June 30, 2016.

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 \$10,168,733 as of June 30, 2016.

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, 2016.

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, 2016.

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.

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.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

Deficit Fund Balances

The funds with deficit fund balances include the Capital Projects FY11 fund # 89200 in the amount of \$(2,656,704) and the Federal Funds #12150 in the amount of \$(22,081).

Net Position

The government-wide financial statements utilize a net asset presentation. Net position are categorized as net investment in capital assets, 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 \$21,292,776 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.”

Use of Estimates

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

3) Cash and Investments

Cash

Included in cash is \$7,266,999 (net of overdrafts) of funds that are held in the State Treasurer's General Fund Investment Pool (SGFIP). 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.

A reconciliation of claims on the SGFIP to the related assets managed by STO is performed monthly. There is no material difference between the two amounts.

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, 2016. 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, 2016, 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.

State of New Mexico
Higher Education Department
Notes to Financial Statements (continued)
June 30, 2016

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, 2016, 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.

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

SHARE Fund #	Fund/Program	State Treasurer Balance	Outstanding Warrants	Reconciled Balance
91000	General Fund	\$ 1,318,063	\$ -	\$ 1,318,063
10990	ABE Instructional Materials	3	-	3
12150	Federal Funds	(2,152,577)	-	(2,152,577)
21600	Student Financial Aid	2,969,919	-	2,969,919
21700	College Affordability	11,704	-	11,704
29200	College Goal Sunday Grant Fund	8,535	-	8,535
34400	Post-Secondary Education Institution Fund	1,100,211	-	1,100,211
47900	Faculty Endowment Fund	298,624	-	298,624
54500	Performance Fund	2,081	-	2,081
63700	Lottery Tuition Fund	2,219,376	-	2,219,376
64400	Capital Projects	(150,587)	-	(150,587)
78200	Performance Development Fund	139,767	-	139,767
88100	Legislative Endowment Scholarship	729,792	-	729,792
89000	ARRA	17,500	-	17,500
89200	Capital Projects FY2011	754,588	-	754,588
Total		\$ 7,266,999	\$ -	\$ 7,266,999

Non-expendable Trust Fund

88100 Legislative Endowment Scholarship Non-expendable	
Trust Fund included above	\$ 2,179,222
23900 College Affordability Endowment	-
	<u>\$ 2,179,222</u>
Reconciliation to Statement of Net Position	
Cash and investments	\$ 9,570,163
Less: overdraft	(2,303,164)
Total expendable cash	<u>\$ 7,266,999</u>

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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, 2016:

Investment Type	<u>Fair Value</u>
Core Bonds Pool	\$ 2,538,233
Large Cap Activity Pool	808,538
Large Cap Index Pool	1,054,522
Small Mid Cap Pool	2,179,363
Non US Developed Markets Pool	675,405
Non US Emerging Markets Pool	341,983
Total long-term investments	<u>\$ 7,598,044</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.

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4) Receivables

Due from Other Funds

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

Due From	Due To		
	General Fund 91000	College Affordability Scholarship 21700	Total
64400 Capital Projects Fund	\$ 150,587	\$ -	\$ 150,587
	<u>\$ 150,587</u>	<u>\$ -</u>	<u>\$ 150,587</u>

Due from Other State Agencies

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

Share Fund #	Fund	Description	Amount	Due From
63700	Lottery Tuition	Lottery Proceeds	6,665,396	NM Lottery Authority
89200	Capital Projects	Bond Proceeds	2,237,162	NM Board of Finance
91000	General Fund	Employee Sharing	<u>8,751</u>	NM Public Education Dept.
Total Due from Other State Agencies			8,911,309	

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.

Share Fund #	Fund	Description	Amount	Due From
12150	Federal Funds	Federal grant receivables	4,095,140	US Department of Education

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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 2015				Total Accrued	Loan Balance 2016
	As Restated	Advances	Payments	Srv Applied	Interest	
ALL	523,342	96,000	(5,098)	(33,100)	118,941	581,144
BDS	198,780	64,800	(12,446)	(25,920)	13,390	225,214
HPL	25,000	-	-	-	20,687	25,000
LRP	36,436	5,450	(2,578)	-	16,063	39,308
MED	2,164,543	475,000	(11,544)	(171,500)	971,159	2,456,499
MND	979,471	82,500	(27,645)	(39,000)	298,523	995,326
NLS	1,820,850	499,109	(8,565)	(219,007)	1,501,869	2,092,387
NMS	87,737	-	(97)	-	176,953	87,640
NSE	27,000	43,750	-	(31,750)	100	39,000
OST	211,296	-	-	-	447,778	211,296
PCP	150,000	112,000	-	-	-	262,000
SEN	69,378	-	-	-	192,429	69,378
TCH	287,993	1,810	(2,046)	(17,424)	206,473	270,333
TQ1	9,190	-	-	-	14,953	9,190
TRP	-	1,500	(13)	-	201	1,487
WCH	9,779,989	2,158,083	(102,088)	(2,207,366)	832,894	9,628,618
	<u>16,371,005</u>	<u>3,540,002</u>	<u>(172,120)</u>	<u>(2,745,067)</u>	<u>4,812,413</u>	<u>16,993,820</u>
					Allowance for uncollectible accounts	<u>(7,865,562)</u>
					Net loans receivable	<u>13,940,671</u>

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 Fund and Department Governmental Descriptions which describes the programs in more detail.

Loans forgiven amounted to \$2,745,067 for the year ended June 30, 2016.

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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 \$4,749,436 for interest and \$3,116,126 for principal. Interest income for the year was \$484,393 of which approximately 97% of the balance is included in the allowance for doubtful accounts. Total accrued interest at June 30, 2016 is \$4,812,413.

5) Capital Assets

The capital assets activity for the year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Balance June 30, 2015, As Restated	Additions	Deletions	Balance June 30, 2016
Capital Assets:					
Equipment and machinery	\$ 63,420	\$ 100,279	-	(63,420)	\$ 36,859
Total at historical cost	63,420	100,279	-	(63,420)	36,859
Less accumulated depreciation:					
Equipment and machinery	63,420	70,399	8,213	(63,420)	15,192
Total accumulated depreciation	63,420	70,399	8,213	(63,420)	15,192
Capital assets, net	<u>\$ -</u>	<u>\$ 29,880</u>	<u>\$ (8,213)</u>	<u>\$ -</u>	<u>\$ 21,667</u>
Depreciation expense was charged to function as follows:					
General government					<u>\$ 8,213</u>
Total depreciation					<u>\$ 8,213</u>

6) 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, 2016. The General Fund liquidates compensated absences liabilities.

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A summary of changes in the compensated absences payable for the year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016	Amount Due Within One Year
Compensated absences payable					
General Fund	\$ 127,080	81,902	(68,139)	\$ 140,843	\$ 140,843

7) Due to Other Agencies and State General Fund (Reversions)

Due to Other Agencies

Share Fund #	Fund	Description	Amount	Due To
12150	Federal Funds	Program disbursement	32,120	NM Department of Corrections

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, 2016. 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, 2016 is as follows:

<u>Year ended June 30</u>	<u>Reversion Amount</u>
2016	\$ 223,863
2015	175,627
Total reversions	<u>\$ 399,490</u>

8) 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

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June 30, 2016

terms. Expenditures for operating leases and other rentals for the year ended June 30, 2016 were \$326,539.

Future minimum payments under these operating leases are as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2017	\$ 302,802
2018	308,598
2019	311,571
2020	309,642
2021	307,005
2022-2026	924,321
Thereafter	125,796
	<u>\$ 2,589,735</u>

9) Other Financing Sources/Uses and Transfers

Other Financing Sources

<u>Fund #</u>	<u>Fund Name/Description</u>	<u>Financing Sources</u>	<u>Financing Uses</u>
91000	General Fund Transfer to State General Fund for FY 2016 reversions		223,863
91000	General Fund Appropriation Laws 2015 First S Chapter 101 section 5 items 63 to Provide Campus Security	500,000	
91000	General Fund Appropriation Act Laws of 2015 from Indian Education Fund	150,650	
21700	College Affordability Transfer from NM State Investment Council	800,000	
10990	AE Instructional material Transfer from PED	258,387	
		<u>1,709,037</u>	<u>223,863</u>

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Inter-Agency Transfers

State agency/ Agency Fund	Agency Number	Fund Number	Purpose	91000 General Fund	21600 Financial Aid	63700 Lottery Tuition	89200 Capital Projects	Total
Department of Finance and Administration	34101	85300	State General Fund appropriation	\$ 11,998,700	\$ 24,116,800	\$ -	\$ -	\$ 36,115,500
Public Education Department	92400	63300	Tribal dual credit	150,650	-	-	-	150,650
Department of Finance and Administration	34100	85300	Special Appropriation for hire education earned in FY 2016	500,000	-	-	-	500,000
Tax and Revenue Department	33300	82800	Liquor excise tax	-	-	16,390,859	-	16,390,859
NM Lottery Authority	81100	63700	Lottery proceeds for scholarships	-	-	47,781,673	-	47,781,673
State Board of Finance	34103	89200	Bond proceeds appropriation	-	-	-	11,869,122	11,869,122
				<u>\$ 12,649,350</u>	<u>\$ 24,116,800</u>	<u>\$ 64,172,532</u>	<u>\$ 11,869,122</u>	<u>\$ 112,807,804</u>

10) Pension Plan — Public Employees Retirement Association

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico (the State) has implemented the standard since the fiscal year ending June 30, 2015.

The 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 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 CAFR and will be on the Department of Finance and Administration's home page or at <http://www.nmdfa.state.nm.us/audit-info.aspx>.

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June 30, 2016

11) Post-Employment Benefits — State Retiree Health Plan

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

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

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

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

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating

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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, 2016, 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, 2016, 2015, and 2014, were \$48,255, \$48,257, and \$45,640, respectively, which equal the required contributions for each year.

12) 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.

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June 30, 2016

13) Restatement of Beginning Fund Balance and Net Position

During 2016, it was determined that the loan receivable balances and allowance for uncollectible accounts were not correctly agreed to the ECIS system in prior years which resulted in the beginning balances being incorrect in the prior year in the Financial Aid fund

21600. Additionally, the Capital Projects FY 11 fund 89200 was found to have a missing receivable from another state agency. The restatement of beginning fund balance is as follows:

	21600 <u>Financial Aid</u>
Fund balance at June 30, 2015, as previously reported	\$ 15,163,868
Adjustment to correct both loan receivables and allowance for uncollectible loan receivables to agree to system	<u>(363,463)</u>
Fund balance at June 30, 2016, as restated	<u><u>\$ 14,800,405</u></u>
	89200 <u>Capital Projects</u> <u>FY11</u>
Fund balance at June 30, 2015, as previously reported	\$ -
Adjustment to correct unrecorded amounts due from the NM Department of Finance and Administration	<u>(201,809)</u>
Fund balance at June 30, 2016, as restated	<u><u>\$ (201,809)</u></u>

It was also determined that certain capital asset balances and the related accumulated depreciation for the Department were misstated at June 30, 2015. Assets of \$36,859

and accumulated depreciation of \$6,979 were not included when they should have been. The restatement of beginning net position is as follows:

	<u>Governmental Activities</u>
Net position at June 30, 2015, as previously reported	\$ 26,397,686
Adjustments to correct capital asset and depreciation amounts reported in previous years	29,880
Adjustment to correct both loan receivables and allowance for uncollectible loan receivables to agree to system	(363,463)
Adjustment to correct amounts due from the NM Department of Finance and Administration	<u>(201,809)</u>
Net position at June 30, 2016, as restated	<u>\$ 25,862,294</u>

14) Subsequent Events

Management has evaluated subsequent events through June 9, 2017, 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.

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Major Fund and Department Governmental Descriptions
June 30, 2016

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 nonreverting 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 nonreverting 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.

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Major Fund and Department Governmental Descriptions — continued
June 30, 2016

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 nonreverting 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 nonreverting 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.

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Major Fund and Department Governmental Descriptions — continued
June 30, 2016

(Section 21-22E through 21-22E-10) (NMSA 1978). Money appropriated to the fund is nonreverting to the State General Fund.

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

– The State and Federal Health Professional Education Loan Repayment Programs are incentive programs designed to improve the recruitment and retention of primary medical care providers in under-served portions of New Mexico. Awards will be made to primary medical care providers serving in designated under-served areas, with priority given to providers located at community-based primary care centers. Awards must be used to pay for an individual’s medical student loans. Medical care personnel eligible for loan repayment awards include physicians (both MD and DO), nurse practitioners, nurse midwives, physician’s assistants, and allied health service professionals. (21-22D, NMSA 1978). Per Section 21-22D-8, money appropriated to the fund is nonreverting 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 nonreverting 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 nonreverting 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 nonreverting to the State General Fund.

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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 nonreverting to the State General Fund.

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

Lottery Tuition (SHARE Fund #21600 Dept. #4800) – The amount transferred from the Lottery Tuition Fund (SHARE Fund #63700) 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.

State of New Mexico
Higher Education Department
Major Fund and Department Governmental Descriptions — continued
June 30, 2016

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 nonreverting to the State General Fund.

Byrd Scholarship (SHARE Fund #21600 Dept. #5500) – This program is federally funded and state-administered, which is designed to recognize exceptionally able high school seniors who show promise of continued excellence in post-secondary education. The Department awards 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 nonreverting to the State General Fund.

State of New Mexico
Higher Education Department
Major Fund and Department Governmental Descriptions — continued
June 30, 2016

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.

Federal Funds (SHARE Fund # 1 2150) – This fund 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. 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.

State of New Mexico

Higher Education Department

Nonmajor Fund and Department Governmental Descriptions — continued
June 30, 2016

Nonmajor Funds

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 nonreverting 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 nonreverting 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 nonreverting to the State General Fund.

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 nonreverting.

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.

State of New Mexico
Higher Education Department
Nonmajor Fund and Department Governmental Descriptions — continued
June 30, 2016

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.

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 nonreverting 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 nonreverting 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 — Nonmajor Funds
Supplementary Information
June 30, 2016

	ABE Instructional Materials- 10990	College Affordability - 21700	College Goal Sunday Grant - 29200	Post- Secondary Educational Institution- 34400
ASSETS				
State General Fund Investment Pool	\$ 3	\$ 11,704	\$ 8,535	\$ 1,100,210
Due from Other Funds	-	-	-	-
Total Assets	<u>\$ 3</u>	<u>\$ 11,704</u>	<u>\$ 8,535</u>	<u>\$ 1,100,210</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Voucher Payable	\$ -	\$ -	\$ -	\$ 5,682
Interest in STGFIP Overdraft		-		
Payroll Benefits & Taxes Payable	-	-	-	5,372
Due to Other Funds	-	-	-	-
Payable to other governments	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,054</u>
Deferred Inflows	-	-	-	147,132
Fund balances:				
Restricted for:				
Special Purposes	3	11,704	8,535	942,024
Unassigned:				
Unassigned	-			
Total Fund Balances	<u>3</u>	<u>11,704</u>	<u>8,535</u>	<u>942,024</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 3</u>	<u>\$ 11,704</u>	<u>\$ 8,535</u>	<u>\$ 1,100,210</u>

State of New Mexico
Higher Education Department
Combining Balance Sheet — Nonmajor Funds (Continued)
Supplementary Information
June 30, 2016

Higher Education Performance - 54500	Capital Projects 64400	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 88100	ARRA - 89000	Total Governmental Funds
\$ 2,081	\$ -	\$ 139,766	\$ 729,792	\$ 17,500	\$ 2,009,591
-	150,587	-	-	-	150,587
<u>\$ 2,081</u>	<u>\$ 150,587</u>	<u>\$ 139,766</u>	<u>\$ 729,792</u>	<u>\$ 17,500</u>	<u>\$ 2,160,178</u>
-	-	-	-	-	5,682
-	150,587	-	-	-	150,587
-	-	-	-	-	5,372
-	-	-	-	-	-
-	-	-	-	17,500	17,500
<u>-</u>	<u>150,587</u>	<u>-</u>	<u>-</u>	<u>17,500</u>	<u>179,141</u>
-	-	-	-	-	147,132
2,081	-	139,766	729,792	-	1,833,905
<u>2,081</u>	<u>-</u>	<u>139,766</u>	<u>729,792</u>	<u>-</u>	<u>1,833,905</u>
<u>\$ 2,081</u>	<u>\$ 150,587</u>	<u>\$ 139,766</u>	<u>\$ 729,792</u>	<u>\$ 17,500</u>	<u>\$ 2,160,178</u>

State of New Mexico
Higher Education Department
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance— Nonmajor Funds
Supplementary Information
June 30, 2016

	ABE Instructional Materials- 10990	College Affordability - 21700	College Goal Sunday Grant - 29200	Post- Secondary Educational Institution- 34400
REVENUES				
Other Licenses and Permits	\$ -	\$ -	\$ -	\$ 343,760
Interest on Investments	-	-	20	-
Miscellaneous Revenue	-	-	-	3,286
Total Revenues	<u>-</u>	<u>-</u>	<u>20</u>	<u>347,046</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	173,193
Contractual Services	-	-	-	4,776
Other	258,387	1,990,479	-	22,507
Total Expenditures	<u>258,387</u>	<u>1,990,479</u>	<u>-</u>	<u>200,476</u>
Excess (Deficiency) of Revenues Over Ex:	<u>(258,387)</u>	<u>(1,990,479)</u>	<u>20</u>	<u>146,570</u>
OTHER FINANCING SOURCES (USES)				
Other financing source	258,387	800,000	-	-
Total Other Financing Sources and Uses	<u>258,387</u>	<u>800,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>(1,190,479)</u>	<u>20</u>	<u>146,570</u>
Fund Balances - beginning	<u>3</u>	<u>1,202,183</u>	<u>8,515</u>	<u>795,454</u>
Fund Balances - ending	<u>\$ 3</u>	<u>\$ 11,704</u>	<u>\$ 8,535</u>	<u>\$ 942,024</u>

State of New Mexico
Higher Education Department
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance— Nonmajor Funds
Supplementary Information
June 30, 2016

Higher Education Performance - 54500	Capital Projects - 64400	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 88100	ARRA - 89000	Total-Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343,760
4	-	317	6,608	-	6,949
-	-	-	-	-	3,286
<u>4</u>	<u>-</u>	<u>317</u>	<u>6,608</u>	<u>-</u>	<u>353,995</u>
-	-	-	-	-	173,193
-	-	-	-	-	4,776
-	-	-	-	-	2,271,373
-	-	-	-	-	2,449,342
<u>4</u>	<u>-</u>	<u>317</u>	<u>6,608</u>	<u>-</u>	<u>(2,095,347)</u>
-	-	-	-	-	1,058,387
-	-	-	-	-	1,058,387
<u>4</u>	<u>-</u>	<u>317</u>	<u>6,608</u>	<u>-</u>	<u>(1,036,960)</u>
2,077	-	139,449	723,184	-	2,870,865
<u>\$ 2,081</u>	<u>\$ -</u>	<u>\$ 139,766</u>	<u>\$ 729,792</u>	<u>\$ -</u>	<u>\$ 1,833,905</u>

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
ABE Instructional Materials (Fund 10990)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	277,300	277,300	258,387	18,913
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>277,300</u>	<u>277,300</u>	<u>258,387</u>	<u>18,913</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(277,300)</u>	<u>(277,300)</u>	<u>(258,387)</u>	<u>(18,913)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	277,300	277,300	258,387	(18,913)
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>277,300</u>	<u>277,300</u>	<u>258,387</u>	<u>(18,913)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
College Affordability Scholarship (Fund 21700)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	2,000,000	2,000,000	1,990,479	9,521
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,990,479</u>	<u>9,521</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(1,990,479)</u>	<u>(9,521)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	2,000,000	2,000,000	800,000	1,200,000
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>2,000,000</u>	<u>2,000,000</u>	<u>800,000</u>	<u>1,200,000</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,190,479)</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
College Goal Sunday Grant (Fund 29200)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	20	20
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>20</u>	<u>20</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>20</u>	<u>20</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
Post-Secondary Education Institution Fund (Fund 34400)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	314,900	314,900	343,760	28,860
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	3,286	3,286
Other Fees	-	-	-	-
Total Revenues	<u>314,900</u>	<u>314,900</u>	<u>347,046</u>	<u>32,146</u>
EXPENDITURES				
Personnel Services & Employee Benefits	443,100	343,100	173,193	169,907
Contractual Services	16,400	16,400	4,776	11,624
Other	199,000	199,000	22,507	176,493
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>658,500</u>	<u>558,500</u>	<u>200,476</u>	<u>358,024</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(343,600)</u>	<u>(243,600)</u>	<u>146,570</u>	<u>(325,878)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (343,600)</u>	<u>\$ (243,600)</u>	<u>\$ 146,570</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
Higher Education Performance (Fund 54500)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	4	4
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual (Multi-Year)—Nonmajor Governmental Funds—
Capital Projects Fund (Fund 64400)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
Program Development Enhancement (Fund 78200)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	317	317
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>317</u>	<u>317</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>317</u>	<u>317</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
Legislative Endowment Scholarship Fund (Fund 88100)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	6,608	6,608
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>6,608</u>	<u>6,608</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>6,608</u>	<u>6,608</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,608</u>	

State of New Mexico
Higher Education Department
Statement of Revenues, Expenditures and Changes in Fund Balance—
Budget to Actual—Nonmajor Governmental Funds—
ARRA (Fund 89000)
Supplementary Information
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

Other Supplementary Information

State of New Mexico
Higher Education Department
Schedule of Capital Outlay Appropriations
Other Supplementary Information
For the Year Ended June 30, 2016

	Group	Approp. End Date	Amount Sold	Amount Drawn Prior	Amount Drawn Current	Balance Held by State Board of Finance June 30, 2016
Library Acquisitions Academic LIBR St	GOB13 12-1234	6/30/2016	3,000,000	(2,573,198)	(271,785)	155,017
CNM-South Valley & Main	GOB A12-1239	6/30/2016	10,500,000	(7,134,041)	(3,365,959)	-
NMJC Infrastructure	GOB A12-1241	6/30/2016	3,300,000	(2,982,125)	(317,875)	-
MCC Infrastructure	GOB A12-1242	6/30/2016	1,000,000	(998,829)	(1,171)	-
SJC Infrastructure	GOB A12-1243	6/30/2016	1,200,000	(500,301)	(698,041)	1,658
LCC Voc Ed Complex	GOB A12-1244	6/30/2016	4,000,000	(1,074,463)	(2,761,950)	163,587
SFCC Roofing	GOB A12-1245	6/30/2016	1,000,000	(987,857)	(11,942)	201
SFCC Sign Language Interpret Prog.	STB A12-1528	6/30/2016	58,000	(21,464)	(18,201)	18,335
SFCC Media/Film Tech Upgrades	STB A14-2116	6/30/2016	75,000	(74,778)	-	222
CNM Fiber Optic	STB A13-1880	6/30/2017	1,000,000	(267,916)	(684,574)	47,510
LCC Springer Renovate	STB A13-1881	6/30/2017	300,000	(3,000)	(49,864)	247,136
SFCC Health Sciences	STB A13-1884	6/30/2017	56,000	(50,943)	(5,000)	57
SFCC Sign Language Equip.	STB A13-1885	6/30/2017	48,750	(43,940)	(4,782)	28
SFCC Trades & Tech	STB A13-1886	6/30/2017	117,778	(105,642)	(5,592)	6,544
2014 Academic Library Resource Acquisitions	GOB A14-1291	6/30/2018	3,500,000	-	(2,020,467)	1,479,533
CNM Smith Brasher Hall Renovate	GOB A14-1296	6/30/2018	10,000,000	-	(41,095)	9,958,905
CCC Roof/Replace	GOB A14-1297	6/30/2018	500,000	-	(500,000)	-
LCC Satellite Campuses Ren-Santa Rosa/Springer	GOB A14-1299	6/30/2018	1,380,000	-	(26,739)	1,353,261
MCC Roof & Critical Infra Improvement	GOB A14-1300	6/30/2018	650,000	-	(97,978)	552,022
SJC School of Science, Math, & Engineering Ren	GOB A14-1301	6/30/2018	4,000,000	-	(100,357)	3,899,643
SFCC Critical Infra Improvement	GOB A14-1302	6/30/2018	2,000,000	-	(324,897)	1,675,103
SFCC Energy & Microgrids	STB A14-2115	6/30/2018	240,000	-	(73,040)	166,960
NMJC Allied Health Building	STB A15-0961	6/30/2019	705,000	-	(52,877)	652,123
SJC CDL Training Lot	STB A15-0964	6/30/2019	500,000	-	(9,792)	490,208
IAIA Academic Building Roof & Cooling Units	STB A15-0970	6/30/2019	800,000	-	(39,429)	760,571
SFCC Automotive Facility	STB A15-0971	6/30/2019	90,000	-	(59,907)	30,093
CNMCC Max Salazar HVAC & Mechanical Upgrades	STB A15-0958	6/30/2019	1,500,000	-	-	1,500,000
SIPI Fire Alarm Improvement	STB A15-0959	6/30/2019	500,000	-	-	500,000
CCC Barracks Demolish & Abatement	STB A15-0960	6/30/2019	400,000	-	-	400,000
NMJC Allied Health Building	STB A15-0961	6/30/2019	705,000	-	-	705,000
NTU Health/Security/Safety Improvement	STB A15-0962	6/30/2019	535,000	-	-	535,000
MCC Bldg. D Roof & Infra Improvement	STB A15-0963	6/30/2019	1,300,000	-	-	1,300,000
SJC CDL Training Lot	STB A15-0964	6/30/2019	500,000	-	-	500,000
SJC Henderson Fine Arts Ctr. Fire Alarm System	STB A15-0965	6/30/2019	500,000	-	-	500,000
DINE College Access Lanes & Sidewalks	STB A15-0966	6/30/2019	700,000	-	-	700,000
LCC Media Education Center Construct	STB A15-0967	6/30/2019	40,000	-	-	40,000
LCC Media Education Center Exterior Improvementment	STB A15-0968	6/30/2019	800,000	-	-	800,000
LCC Roofs Las Vegas	STB A15-0969	6/30/2019	35,000	-	-	35,000
IAIA Academic Building Roof & Cooling Units	STB A15-0970	6/30/2019	800,000	-	(325,808)	474,192
SFCC Automotive Facility	STB A15-0971	6/30/2019	90,000	-	-	90,000
SFCC Hydroponic/Aquaponic Greenhouses & ED Faculty	STB A15-0972	6/30/2019	240,000	-	-	240,000
SFCC Infrastructure Improvementment	STB A15-0973	6/30/2019	400,000	-	-	400,000
SFCC Plant Operations & Maintenance Improvementment	STB A16-2593	6/30/2020	50,000	-	-	50,000
SFCC Science on a Sphere Purchase	STB A16-2594	6/30/2020	75,000	-	-	75,000
			59,190,528	(16,818,497)	(11,869,122)	30,502,909

State of New Mexico
Higher Education Department
Schedule of Memorandums of Understanding
Other Supplementary Information
For the Year Ended June 30, 2016

Participants	Party Responsible For Operations	Description	Date	Total Estimated Costs	FY 2016 contributions	Fiscal Audit Responsibly	Entity Reporting Costs
NMHED and 29 Higher education Institutions	NMHED	Each public institution financially contributed to complete articulation and transfer common course numbering.	2/18/2016	\$50,000	\$50,000	Various	\$50,000
NMHED and University of NM Health Science Center	University of NM Health Science Center	UNM dental residency program will perform operational, administrative and management responsibilities to place 10 dental residence.	7/1/2015	\$1,000,000	\$1,000,000	University of NM Health Science Center	\$1,000,000
NMHED and New Mexico Education Trust Board (ETB)	New Mexico Education Trust Board	ETB is administratively attached to NMHED. ETB to pay 10% of HED General Counsel's salary.	3/29/2016	\$8,484	\$8,484	New Mexico Education Trust Board	\$8,484
NMHED and Texas A&M Health Science Center on behalf of Baylor College of Dentistry	Texas A&M Health Science Center on behalf of Baylor College of Dentistry	Students enrolled in TAMBCD under the agreement will pay Texas statutory in-state tuition and NMHED agrees to pay the difference between Statutory non-resident tuition and in-state tuition for a maximum of three students.	7/7/2015	\$32,400	\$32,400	Texas A&M Health Science Center on behalf of Baylor College of Dentistry	\$32,400
NMHED and Gear Up New Mexico (GUNM)	GUNM	Planning student leadership conferences.	8/7/2015	\$150,000	\$150,000	NMHED	\$150,000

State of New Mexico
Higher Education Department
Schedule of Expenditures of Federal Awards
Other Supplementary Information
For the Year Ended June 30, 2016

Federal Grantor / Pass-through Grantor / Program Title / Fund Title / Contract Number	Pass-Through Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Education			
Direct Programs:			
Adult Education- Basic Grants to States	V002A120032	84.002	4,140,040
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S12005	84.334	4,304,752
No Child Left Behind FFY12	S367B110028	84.367	1,388
No Child Left Behind FFY13	S367B120028	84.367	114,824
No Child Left Behind FFY14	S367B130028	84.367	<u>416,085</u>
Total U.S. Department of Education Direct			8,977,089
U.S. Department of Justice			
Direct Programs:			
John R. Justice Prosecutors and Defenders Incentive Act FFY14			18,675
John R. Justice Prosecutors and Defenders Incentive Act	2011-RJ-BX-0046	16.816	<u>31,125</u>
Total U.S. Department of Justice			<u>49,800</u>
			<u>9,026,889</u>

Program Title	CFDA Number	Federal Amount Provided to Subrecipients
Adult Education - Basic Grants to States	84.002	\$ 2,833,005
GEAR-UP	83.334	2,089,272
No Child Left Behind	84.367	<u>259,363</u>
Total provided to Subrecipients		<u>\$ 5,181,640</u>

State of New Mexico
Higher Education Department
Notes to Schedule of Expenditures of Federal Awards
Other Supplementary Information
For the Year Ended June 30, 2016

1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of New Mexico Department of Finance and Administration and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

2) Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in the *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

3) Indirect Cost Rate

The Department has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

4) Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2016 *Catalog of Federal Domestic Assistance*.

State of New Mexico
Higher Education Department
Notes to Schedule of Expenditures of Federal Awards
Other Supplementary Information
For the Year Ended June 30, 2016

5) Subrecipients

Subrecipients Name	Pass Through Funds
Adult Education	
Alamo Navajo School Board Inc.	\$ 64,357
Albuquerque Ged	87,389
Central New Mexico Community College	379,759
Clovis Community College	98,826
Dine College	66,217
Eastern New Mexico University-Roswell	280,870
Luna Community College	46,706
Mesalands Community College	56,580
New Mexico Junior College	91,632
Northern New Mexico College	63,226
Regents Of New Mexico State	597,619
San Juan College	141,854
Santa Fe Community College	299,859
Southwestern Indian Polytechnic Inst	49,216
The University Of New Mexico	437,451
Western New Mexico University	71,444
	<u>\$ 2,833,005</u>
GEAR UP	
Albuquerque Public Schools	\$ 1,399
Central Consolidated Schools #22	306,682
Deming Public Schools	16,356
Jemez Mtn School Dist. No 53	245,794
Jemez Valley Public Schools	170,218
Los Lunas Schools	354,364
Mora Independent Schools	232,363
Pecos Independent Schools	205,787
Penasco Independent School District	263,282
Santa Fe Community College	1,622
Santa Fe Public Schools	288,476
The University Of New Mexico	2,929
	<u>\$ 2,089,272</u>
No Child Left Behind	
Northern New Mexico College	\$ 51,310
Regents Of New Mexico State	208,053
	<u>\$ 259,363</u>
Subrecipients Total	<u><u>\$ 5,181,640</u></u>

State of New Mexico
Higher Education Department
 Schedule of Vendor Information for Purchases
 Exceeding \$60,000 (Excluding GRT) – (Unaudited)
 For the Year Ended June 30, 2016

<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Bidder - Vendor Name</i>	<i>Did Bidder - Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>
40-95000-15- 00772	Sole Source	LiteracyPro Systems Inc.	Winner	\$ 82,782	\$ 82,782

<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
2355 Canyon Blvd, Ste 204, Boulder, CO	N/A	N/A	Maintenance of proprietary literacy systems currently used by the Adult Educator providers	N/A



State of New Mexico
OFFICE OF THE STATE AUDITOR

**INDEPENDENT AUDITOR'S 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
New Mexico Higher Education Department
Santa Fe, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 State of New Mexico Higher Education Department (the "Department"), as of and for the year ended June 30, 2016, 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 nonmajor funds and the budgetary comparisons for all nonmajor funds, presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, as listed in the table of contents, and have issued our report thereon dated June 9, 2017. Our report expresses a qualified opinion on some funds because of the matters described in the "Basis for Qualified Opinions" paragraph in our report starting on page 2.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-001, 2015-002, 2015-003, 2016-001, and 2016-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2006-001, 2015-001, 2016-003, and 2016-004 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 which are described in the accompanying schedule of findings and questioned costs as items 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, 2016-11, 2016-012 and 2016-013.

Department's Responses to the Findings

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

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.

Office of the State Auditor
Santa Fe, New Mexico
June 9, 2017

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

**State of New Mexico
OFFICE OF THE STATE AUDITOR**

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

Dr. Barbara Damron, Cabinet Secretary
State of New Mexico
Higher Education Department
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Higher Education Department's (Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the year ended June 30, 2016. The Department's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Department's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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.

**2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507
Phone (505) 476-3800 * Fax (505) 827-3512
www.osanm.org * 1-866-OSA-FRAUD**

Opinion on the 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 its major federal program for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-011, 2016-012, 2016-013. Our opinion on the major federal program is not modified with respect to these matters.

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

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Office of the State Auditor

Office of the State Auditor
Santa Fe, New Mexico
June 9, 2017

State of New Mexico
Higher Education Department
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 For the Year Ended June 30, 2016

I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Multiple
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• 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?	No
Type of auditors' report issued on compliance for Major programs?	Unmodified
Any audit findings disclosed that are required to be Reported in accordance with 2 CFR 200.516 (a)?	No
Identified as a major program:	
GEARUP	84.334
Dollar threshold used to distinguish between Type A and Type B programs?	\$750,000
Auditee qualified as a low-risk auditee?	No

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

CONDITION

The following deficiency was noted during our loan file testwork:

- One of 35 loan disbursements tested was not recorded in loan servicer's system (ECSI). The ECSI system showed a loan balance of \$1,250. We noted two disbursements of \$1,250 in the student loan file, for a total of \$2,500.

Per the results of the audit testwork, it does not appear that the Department has made progress in implementing the corrective action plan described in management's response to this finding in the previous year.

CRITERIA

Section 6-5-1 and Section 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. Accuracy, completeness, and rights of loans receivable should be accurately reflected in loan balances and correctly recorded.

EFFECT

Loans receivable and the related interest receivable balance may be understated.

CAUSE

Internal controls over recording of loan disbursements were not effective. A disbursement was not recorded in the loans receivable ledger.

RECOMMENDATION

HED should develop internal control procedures and policies to ensure all loan disbursements are recorded. Monthly detailed reports from ECSI and postings to the general ledger for loan activity including interest accruals should be reviewed by management to ensure that all loan information is accurately reflected in the general ledger and the ECSI system.

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2006-001- Continued

MANAGEMENT'S RESPONSE

Management agrees with this finding, the transaction occurred in July 1990. In the 1990s the New Mexico Assistance Foundation administered the funds for this loan program. Due to the time that has passed since the transaction occurred, HED was not able to request additional documentation. HED will continue to perform the ECSI system support review. The Director of Financial Aid and Institutional Finance is responsible for the review of the loan documentation, a process that is currently in place.

2010-001 ENTITY-LEVEL CONTROLS OVER FINANCIAL REPORTING (MATERIAL WEAKNESS)
(REPEATED AND MODIFIED)

CONDITION

HED did not have adequate controls in place to exercise effective oversight of the financial reporting process at the entity level during fiscal year 2016. We noted that HED was not following entity-wide policies and procedures. Currently a decentralized system for processing financial transactions is in place instead of centralizing finance related items in the Administrative Service Division.

We noted several activities where there was an absence of controls, including the effective monitoring of accounts that impacted the accuracy of financial reporting. The following items were noted during our testwork:

- A transfer of funds from investments was recorded in the wrong fund for \$800,000. An adjustment was recorded to correct the funds.
- A wire to the Lottery Tuition Fund for fiscal year 2015 was recorded as current year funding in fiscal year 2016. This caused the unadjusted trial balance to overstate Due From other State Agencies and Other Financing Sources-Lottery proceeds by \$3,052,921. An adjustment was recorded to correct the accounts.
- Management recorded an amount for Due from other State Agencies for the May 2016 Lottery proceeds and did not reduce the account when the amount was received before the end of the fiscal year 2016. This caused the unadjusted trial balance to overstate the Due from other State Agencies and Other Financing Sources-Lottery proceeds by \$3,620,490. An adjustment was recorded to correct the accounts.

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2010-001 – Continued

- Deferred Revenues for fiscal year 2015 were recorded for special appropriations funds that were not spent. In fiscal year 2016, HED spent the funds but did not adjust the Deferred Revenue account. This caused the unadjusted trial balance to overstate Deferred Revenue and understate Other Financing Sources by \$500,000. An adjustment was recorded to correct the accounts.
- Federal Grants Receivable was not reconciled at year end. Per review of supporting documentation, Federal Grants Receivable and Revenues-Federal Grants were overstated by \$102,886. An adjustment was recorded to correct the accounts.

During our capital asset testwork, we noted that capital assets were not reconciled. HED discovered that \$36,858 in capital assets additions from fiscal year 2014 were not recorded. This caused fiscal year 2015 and 2016 Depreciation Expense to be inaccurate and/or unrecorded in the amount of \$6,979 and \$8,213, respectively. An adjustment was recorded to correct the accounts.

Per the results of the audit testwork, it does not appear that HED has made progress in implementing the corrective action plan described in management’s response to this finding in the previous year.

CRITERIA

An internal control structure that exists and is functioning properly is required as part of the model accounting practices outlined in 2.20.5.8 C (1) NMAC. Section 6-5-2 (C), 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.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework is recognized as the leading guidance for designing, implementing and conducting internal control and assessing its effectiveness. An “effective” internal control system includes five components; the control environment, risk assessment, control activities, information, and communication and monitoring. These components should be addressed in entity-level controls related to financial reporting and 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 could affect HED’s ability to accurately estimate budgetary needs for subsequent fiscal years and reversions to the state general fund. HED may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

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2010-001 – Continued

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. In addition, there were employee vacancies in key management positions. 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. The decentralized nature of financial transactions for HED increases the risk of inaccurate financial reporting and recordkeeping.

RECOMMENDATION

HED should evaluate the internal control structure within the COSO internal control framework. Specifically, process ownership, reporting lines, and clear channels of communication should be established for all management and employees. Also, management should 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 statutes.

MANAGEMENT'S RESPONSE

Management is in the process of evaluating and implementing an internal control process for FY18 that complies with MAPs and the Department's policies. Financial activities are being centralized back into the Administrative Services Department (ASD). All ASD changes and improvements are being overseen by the Deputy Cabinet Secretary. HED will continue to evaluate and improve the internal control structure and address the staffing challenges that have long existed in ASD. The Department's expectation is that the control structure and staff will be fully implemented and in place no later than July 1, 2018.

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

CONDITION

The process for collecting on student loans that are not eligible for forgiveness based on completed service is not adequate. Approximately \$6.9 million of loans are estimated to be uncollectible due to the expiration of the statute of limitations. Management has made progress in FY 2017 to establish a contractor with a collection agency and achieved legislation that allows NMHED as an eligible agency for tax intercepts.

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.

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.

MANAGEMENT'S RESPONSE

HED concurs with this finding. The Financial Aid Division does not have in-house resources necessary to pursue collections of outstanding/defaulted loans. Beginning in FY 2017 HED is now contracting with a vendor that specialized in education collections. HED has worked with the legislative branch of NM government to prioritize SB 181 Laws 2017 Ch. 82 which adds HED as a claimant agency for tax refund intercept. The loan principal balance cannot be written off based on the NM constitution anti donation clause. For this reason HED can only collect on unexpired loans and record an allowance for bad debt on the expired loans. The Director of Financial Aid and Institutional Finance is responsible for the collection process and this will be fully implemented in FY 2017.

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2015-002 UNTIMELY DEPOSIT OF CASH - CONTROLS OVER CASH RECEIPTS (MATERIAL WEAKNESS)
(REPEATED AND MODIFIED)

CONDITION

During our testwork of seventy-four cash receipts we noted the following:

- Twenty-five receipts, totaling \$21,636 did not have supporting documentation.
- One receipt, for \$24,187, was incorrectly coded in SHARE.
- One receipt, for \$4,000, was dated July 2014 and was incorrectly included in current fiscal year, the item should have been recorded in the prior fiscal year.
- Eight receipts, totaling \$37,843, were not deposited timely by the next business day. Three receipts, totaling \$6,744, did not have a date stamp to verify whether the deposit was completed timely or not.
- Six receipts packets, totaling \$14,413, were not properly reviewed to ensure that the deposit form was reviewed and signed by the employee in charge of inputting the deposit into SHARE.

Management has not made progress toward rectifying the prior year corrective action plan.

CRITERIA

Section 6-5-2(C) NMSA 1978, states that “state agencies shall implement internal controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.”

Per MAPS FIN 2.2 Proof of Deposit Documentation, D. Policy 3, “validated bank receipts should be kept on file until the independent annual audit report for that fiscal year has been officially issued.”

Per Section 6-10-3 NMSA 1978, Payment of State Money into Treasury; Suspense Funds, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as provided in Section 6-10-54 NMSA 1978, must deposit the public money before the close of the next succeeding business day after the receipt of the money and deliver or remit it to the state treasurer.

CAUSE

Internal controls related to cash receipts were not consistently followed during the fiscal year. HED did not have personnel accountable to ensure that internal controls related to cash receipts were being followed. The cash receipts process was decentralized from the Administrative Services Division during the fiscal year and each division was responsible for maintaining cash receipt documentation and entering it into SHARE.

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2015-002 - Continued

EFFECT

Verification of management's assertions relating to completeness, accuracy, classification and valuation could not be completed for twenty-five of seventy-four, or approximately one-third, of the sampled cash receipts. HED did not conform to Generally Accepted Accounting Principles for cutoff and classification related to cash receipts. Untimely deposits may cause the department to be at risk of misappropriation of funds. HED did not comply with State statutes regarding timely deposit of public money. HED staff did not comply with internal review processes, resulting in a lack of accuracy and accountability.

RECOMMENDATION

HED should implement and follow policies and procedures to ensure that the Administrative Services Division maintains proper internal controls for cash receipts. Internal controls should be designed to comply with State statutes governing Public Monies and Department of Finance and Administration policies.

MANAGEMENT'S RESPONSE

As of July 1, 2016 Management has implemented a new process which establishes a log of cash receipts, creates a deposit, provides a review process for the deposit and then makes the deposit within 24 hours. The process involves three individuals to maintain proper separation of duties. The Financial Supervisor is responsible for the implementation, upkeep and review of this process. All missing cash receipts described above were traced to the State's bank to ensure they were deposited. Only those payments received in cash and check were at risk; this represents only 1% of agency deposits. The majority of agency deposits are received by wire and therefore are not handled directly by staff. These improvements are consistent with the criteria listed above.

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2015-003 BUDGETARY COMPLIANCE (MATERIAL WEAKNESS) (REPEATED AND MODIFIED)

CONDITION

The Department over expended its budget in the following programs/funds:

<u>Fund</u>	<u>Fund Description</u>	<u>Final Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Overage</u>
91000	General Fund - Other	9,323,100	9,706,360	(383,260)

Per the results of the audit testwork, it does not appear that the Department has made progress in implementing the corrective action plan described in management’s response to this finding in the previous year.

CRITERIA

State Agency revenues and expenditures are to be budgeted by the agency and submitted to the State of New Mexico Department of Finance and Administration State Budget Division for approval. Once adopted, any claims or warrants in excess of budget at the appropriation program level are a violation of the State Budgets Act, 6-3-1 to 6-3-25 NMSA 1978.

EFFECT

Noncompliance with State statute for approved budgets; claims or warrants in excess of budget; liability.

CAUSE

Expenditures were not properly monitored by HED.

RECOMMENDATION

Management should monitor the budget and expenditures and prepare the necessary budget adjustments to ensure compliance with State statute.

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2015-003 - Continued

MANAGEMENT'S RESPONSE

Management has identified the transactions that created the budget overage. The end of the year transactions will be monitored in order to track the impact of these types of transactions. This process will be part of year end closing procedures and will be implemented by the Financial Supervisor by June 30, 2017. Plans for improvement include the hiring of an accountant/auditor that will be responsible for budget compliance throughout the fiscal year.

2016-001 RESTATEMENT OF FUND BALANCES (MATERIAL WEAKNESS)

CONDITION

During our test work for loans receivable and due to/due from accounts, we noted that materially incorrect balances were reported in prior years. The materially incorrect balances resulted in the following restatements:

- Fund 21600 was restated in the amount of \$363,463. The 2015 loans and interest receivable balances reported on the financial statements were \$363,463 more than the detail provided by the loan servicer at June 30, 2015.
- Fund 89200 was restated in the amount of \$201,806. Due from other State Agencies from fiscal year 2015 could not be substantiated in the amount of \$201,806.

CRITERIA

Section 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.

EFFECT

Prior year balances were not accurately reported and balances had to be restated in the financial statements for fiscal year 2016.

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2016-001 - Continued

CAUSE

HED staff does not have the resources necessary to reconcile and verify account balances.

RECOMMENDATION

HED should establish a process for verifying year end account balances to ensure that account balances are accurately reported.

MANAGEMENT'S RESPONSE

Management will review the issues that created the prior period adjustments to fund balance. Those issues will be addressed and any changes in the process will be immediately implemented. The adjustment issue lies with the FY 2016 beginning balances in the balance sheets for the funds identified above. Management believes the adjustments will correct the balances and moving forward the balances will be accurate. Once the adjustments are posted the resulting balance sheet accounts will be corrected and this matter should be considered resolved.

2016-002 REVERSIONS (MATERIAL WEAKNESS)

CONDITION

HED has not completed its Reversion Notification form to the Department of Finance and Administration, Financial Control Division and has not entered the Operating Transfer in SHARE for fiscal year ending June 30, 2016. The Due to State General Fund account has not been reconciled and has a balance of \$175,627 at June 30, 2016; this amount appears to be related to prior fiscal years.

CRITERIA

Section 6-5-10 NMSA 1978 requires that "all unreserved undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and accounting system as of June 30 shall revert by September 30 to the general fund."

The Manual of Model Accounting Practices (MAPS) FIN 3.8 requires "any unexpended or unencumbered balance remaining in the budget at the end of the fiscal year shall revert to the General Fund or the source fund. Based upon the date requirement set by the General Appropriation Act of each fiscal year, on or

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2016-002 - Continued

about October 31, 20XX is the submission deadline for the Reversion Notification form to FCD. At the end of the fiscal year, agencies must not reserve unexpended amounts as part of fund balance. September 30, 20XX is the deadline for entering Operating Transfers in SHARE for reversions due for the previous fiscal year.”

CAUSE

HED did not reconcile the Due to State General Fund account, prepare the Reversion Notification form and complete the Operating Transfer in SHARE.

EFFECT

HED violated State statute and MAPS related to Reversions and did not revert monies to the State General Fund.

RECOMMENDATION

We recommend that HED reconcile the Due to State General Funds account to verify the accuracy of the Due to State General Fund account. HED should complete the Reversion Notification form and Operating Transfer in SHARE for fiscal year 2016 and implement a process to ensure future Reversion Notification forms and Operating Transfers are completed timely and in accordance with State statute and MAPS.

MANAGEMENT’S RESPONSE

HED agrees with the finding and understands the due dates listed above. The reversion notification and payment was put on hold until after the audit was complete due to the adjustments found by the auditor, the consultant and HED staff. The final reversion calculation and payment will be made upon completion of the audit. Management is aware of the reversion requirements and plans to implement the policy of reversion calculation and payment to the State General Fund during the close out of fiscal year 2017. The Financial Supervisor will be responsible for this process. The full implementation of the reversion process is expected to be complete by August 2017.

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2016-003 INFORMATION TECHNOLOGY GENERAL CONTROLS (SIGNIFICANT DEFICIENCY)

CONDITION

During our review of internal controls over Information Technology, we noted that HED does not have well-defined, written disaster recovery procedures. HED is working to implement written disaster recovery procedures. However, written disaster recovery processes were not in place as of June 30, 2016.

CRITERIA

NMAC 1.12.20.31 (B) states “To minimize interruptions to normal agency business operations and critical agency business applications and to ensure they are protected from the effects of any major failures, each agency business unit or each agency ISO, under the direct guidance of the agency CIO, shall develop plans to meet the IT backup and recovery requirements of the agency and approved by DoIT.”

EFFECT

Lack of disaster recovery procedures decrease the overall network security and the ability to respond and recover critical data applications in the event of an unforeseen disaster.

CAUSE

HED has not implemented a Disaster Recovery Plan. The Information Technology Director departed in fiscal year 2016 and the position has remained vacant.

RECOMENDATION

HED’s management should review, finalize and approve a Disaster Recovery Plan and continue to work with DoIT for final approval.

MANAGEMENT’S RESPONSE

Management has created a disaster recovery plan which has already been submitted to NM DoIT for approval. The Deputy Cabinet Secretary will be responsible for working with DoIT to ensure the plan will be in place no later than October 2017.

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2016-004 CONTROLS OVER PAYROLL (SIGNIFICANT DEFICIENCY)

CONDITION

During our testwork over controls of payroll, we noted the following:

- One out of nine supervisors did not maintain documentation of authorization of leave taken by three employees under their supervision. Approval documentation was not maintained for 10 hours of sick leave, nine hours of annual leave, 16 hours of personal leave day, 12 hours of administrative leave, and two hours of leave without pay, for a total of 49 hours of leave.
- HED did not document overtime approval for one out of three instances tested for .45 hours.

CRITERIA

Per Section 6-5-2(C) NMSA 1978, "State agencies shall implement internal accounting controls designed to prevent accounting errors and violation of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the financial control division that contain errors or that are for a purpose not authorized by law."

Per HED Employee Policies, Overtime, On-Call, & Call-Back Policy, 13.5(A) "The employee's supervisor must submit overtime requests to HED Cabinet Secretary through the appropriate chain-of-command, prior to the overtime being worked. In the event that a situation arises which does not allow sufficient time to request the proper prior authorization, the employee's immediate supervisor must secure the approval of the highest authority level available in the chain-of-command."

EFFECT

Employees could be paid for time they did not work or be compensated for leave that was not accrued.

CAUSE

HED had released the supervisor in question during fiscal year 2016 but could not determine if the supervisor was properly verifying that leave and overtime were approved.

RECOMMENDATION

HED should update their policies to encourage, or make mandatory, the use of SHAREPOINT for all supervisors when approving leave. Furthermore, HED should ensure overtime is not accrued for employees that do not have an authorized overtime request form.

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2016-004 - Continued

MANAGEMENT'S RESPONSE

Management will communicate directly with the supervisor(s) and provide training to make sure proper leave documentation processes are being followed. This will be the responsibility of the Financial Supervisor. HED utilizes the Sharepoint system for leave requests, which provides the paper trail and support for what is entered in SHARE. The Deputy Secretary has initiated conversations with SPO/Shared HR Services about periodically auditing time approvals throughout the year.

2016-005 TRAVEL AND PER DIEM (OTHER NON-COMPLIANCE)

CONDITION

During the internal control testwork over travel and per diem, we noted the following:

- Fourteen out of 28 travel and per diem packets selected contained instances where an employee did not obtain authorization to obtain reimbursement of more than \$1,500, singly or in the aggregate, in any one year, totaling \$5,776 for the packets reviewed.
- Four out of 28 travel and per diem packets contained instances where an employee was reimbursed for \$85 for a non-special destination, a rate of \$85 is a rate allowable for reimbursement of a salaried employee. The employee referenced in the testwork is a non-salaried board member and per the mileage and per diem act, the amount should have been \$95 resulting in an underpayment of \$40.
- One out of 28 travel and per diem packets contained instances where an employee should have been reimbursed \$135 per night since the stay was in a special area (Santa Fe). The Itemized Schedule of Travel Expenses incorrectly states \$85 per night. Furthermore, the reimbursement calculation of the hotel portion of the voucher is incorrect, 2 nights were calculated at \$220, resulting in an underpayment of \$50.
- One out of 28 travel and per diem packets contained an ASD Action Request form that has not been initialed or signed, totaling \$114.

CRITERIA

Each state agency shall establish and implement written policies and procedures for travel and training. Travel policies and procedures shall be in compliance with the Per Diem and Mileage Act, NMAC 2.42.2 Regulations Governing the Per Diem and Mileage Act, and the Department of Finance and Administration's (DFA) regulations and policies. Internal controls are required to demonstrate HED's ability to record, process, summarize and report transactions and support financial statement assertions

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2016-005 - Continued

of existence and occurrence. Furthermore, per section 10-8-5(I) NMSA 1978 a state employee may not be reimbursed more than \$1,500, singly or in the aggregate, in any one year "until the person furnishes in writing to his department head or, in the case of a department head or board or commission member, to the governor or, in the case of a member of the legislature, to the New Mexico legislative council an itemized statement on each separate instance of travel covered within the reimbursement, the place to which traveled and the executive, judicial or legislative purpose served by the travel."

EFFECT

Unauthorized travel and per diem expenditures may be processed and paid without proper approval and rate calculation. Noncompliance with statutes may subject officials and employees to consequences as defined by State statutes.

CAUSE

HED did not maintain policies and procedures to ensure that documentation is properly reviewed to ensure compliance with State statutes and NMAC regulations.

RECOMMENDATION

HED should implement procedures that include reviewing all supporting documentation and retaining all documents to ensure compliance with NMAC 2.42.2, 10-8-5(I) NMSA 1978, and all other relevant statutes, regulations and policies.

MANAGEMENT'S RESPONSE

By October, 2017 the Financial Supervisor will provide training to employees regarding the \$1,500 rule and will implement procedures to ensure that the proper reimbursement rates are being used. The reimbursement rate for the non-salaried board member has already been updated and the individual is being reimbursed at the correct rate as of May 1, 2017.

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2016-006 USE OF STATE ISSUED GAS CREDIT CARDS (OTHER NON-COMPLIANCE)

CONDITION

During the internal control testwork over the use of gas cards, we noted the following:

- Five out of ten fuel disbursements included the purchase of high grade fuel totaling \$169.52.
- One out of ten WEX Card transactions included a non-fuel transaction that did not have receipts related to the transaction, totaling \$83.71.

CRITERIA

Per 1.5.4.12 NMAC, State of New Mexico credit cards shall be used only for official business and only to furnish state-owned vehicles with regular unleaded gasoline.

Per 6-5-8, NMSA 1978, states that all purchase vouchers for goods and services shall be accompanied by supporting invoices and documentation. Department policy also states that receipts are to be maintained for all fuel card purchases to support invoices.

EFFECT

Using high grade fuel imposes a burden to the taxpayers of the State of New Mexico of funds not being used efficiently. HED is not in compliance with State statute or Department policy. The lack of sound accounting practices to support expenditures can lead to improper recording of expenses.

CAUSE

HED Administrative Services Division did not have effective controls in place to support expenditures and administer gas card disbursements in accordance with state statute and regulations.

RECOMMENDATION

HED should develop a system to effectively monitor the use of gas cards. HED should implement sound accounting practices to ensure all supporting documentation is maintained properly and in compliance with State statutes.

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2016-006 - Continued

MANAGEMENT'S RESPONSE

Manage will implement training for gas card use by October 2017. This training will specifically include the use of high grade fuel. Also all transactions will require receipts as described above. The Financial Supervisor will review gas card use starting on July 1, 2017 and will be responsible for the gas card training.

2016-007 CAPITAL ASSETS (OTHER NON-COMPLIANCE)

CONDITION

During our capital asset testwork, we noted the following:

- HED did not perform a physical inventory of capital assets for the year ended June 30, 2016.
- HED did not notify the Office of the State Auditor of asset disposal in the amount of \$63,420.

CRITERIA

Per the Audit Act 12-6-10 NMSA 1978, "each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. This inventory shall include all movable chattels and equipment procured through the capital program fund under Section 15-3B-16 NMSA 1978, which are assigned to the agency designated by the director of the facilities management division of the general services department as the user agency. The inventory shall list the chattels and equipment and the date and cost of acquisition."

Per section 2.20.1.15 NMAC, "each agency shall establish controls over its fixed assets for the primary purposes of safeguarding them and establishing accountability for their custody and use".

Per 13-6-1.B (2) NMSA 1978, the governing authority of each state agency shall "give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the state auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of the authority approving the action."

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016-007 - Continued

EFFECT

The lack of proper internal controls over capital assets may result in misappropriation of assets and misstatements in the financial statements. HED did not comply with State statutes and regulations for capital assets.

CAUSE

HED did not have a system in place to monitor and inventory capital assets.

RECOMMENDATION

HED should designate an individual to perform the capital asset inventory and provide training to the staff to ensure compliance with State statutes and regulations.

MANAGEMENT'S RESPONSE

HED has performed a physical inventory as of March 31, 2017. During that inventory the disposed assets were identified. The equipment was not considered disposed of by HED since it remained in a secure location to be used for parts. The capital asset listing is now current and the acquisition of equipment is limited. HED will continue to perform a physical inventory annually and will be overseen by the Financial Supervisor.

2016-008 CHIEF PROCUREMENT OFFICER'S REPORTING REQUIREMENT (OTHER NON-COMPLIANCE)

CONDITION

In reviewing HED's compliance with Section 13-1-95.2 NMSA 1978, we noted that HED did not have a Chief Procurement Officer (CPO) during most of fiscal year 2016 as required. The designated CPO left HED in October 2015 and a new employee has not been hired and another employee at HED has not been designated as CPO through June 30, 2016.

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016-008 - Continued

CRITERIA

Per section 13-1-95.2 NMSA 1978, "On or before January 1 of each year beginning in 2014, and every time a chief procurement officer is hired, each state agency and local public body shall provide to the state purchasing agent the name of the state agency's or local public body's chief procurement officer and information identifying the state agency's or local public body's central purchasing office, if applicable."

In addition, "a chief procurement officer shall pass a recertification examination approved by the secretary of general services."

EFFECT

HED was not in compliance with Section 13-1-95.2 NMSA 1978 during most of fiscal year 2016.

CAUSE

HED's CPO employee left the Department in October of 2015. HED has not hired or designated an employee as the CPO as of June 30, 2016.

RECOMMENDATION

HED should ensure that the chief procurement officer is reported, certified and trained in accordance with Section 13-1-95.2 NMSA 1978.

MANAGEMENT'S RESPONSE

The Deputy Secretary has appointed the agency's General Counsel to become the CPO. This individual has already attended a number of trainings and is now involved in reviewing all procurement activities of the agency. The CPO designation will not be official until the individual completes a specific training course offered by GSD/State Purchasing which is not offered again until October 2017. Once that training has been attended, the staff member will become the CPO and this is estimated to occur by October 2017.

State of New Mexico
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For the Year Ended June 30, 2016

2016-009 PAYROLL DOCUMENTATION (OTHER NON-COMPLIANCE)

CONDITION

During our review of 28 employee personnel files, we noted the following:

- Seven employees' files did not contain the Form I-9, *Employment Eligibility Verification*.
- One employee's file is missing the Public Employees Retirement Association (PERA) enrollment form. Per review of the employee's paycheck, the employee had PERA deductions.
- One employee file was missing entirely.

CRITERIA

The Immigration Reform Act of 1986 (IRCA) requires that a properly completed Form I-9 be on file for any employees hired after November 6, 1986. 8 USC § 1324a - Unlawful Employment of Aliens requires the hiring entity to retain the properly completed I-9 Form for either three years after the hire date or one year after the individual has been terminated, whichever is longer. Furthermore, in relation to PERA membership, 10-11-3 NMSA 1978 states that "[e]ach employee and elected official of every affiliated public employer shall be a member of the association, unless excluded from membership." Documentation of employees' files should be retained pursuant to record and retention policies.

EFFECT

HED is in violation of IRCA regulations. Additionally, future retirement benefits or beneficiary's benefits could be denied by the PERA or insurance companies if the employee is unable to document that they were properly enrolled and accepted as a member of the association. Employees may be incorrectly compensated or payments may be made to fictitious employees.

CAUSE

HED has shared services with the State Personnel Office (SPO) for all human resource duties. Both HED and SPO have not reviewed employee documents regularly to ensure that all proper documentation has been retained for employees.

RECOMMENDATION

Management should ensure all employees' files contain the necessary documentation for employment.

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016-009 Continued

MANAGEMENT'S RESPONSE

The agency contracts with the NM State Personnel Office to provide Shared HR Services. Management has contacted SPO and requested an audit and complete file review of all HED employee records. The process is estimated to be completed by November 2017 and will be monitored by the Deputy Cabinet Secretary.

2016-010 LATE SUBMISSION OF AUDIT REPORT (OTHER NON-COMPLIANCE)

CONDITION

The audit report for fiscal year 2016 was not submitted by December 1, 2016.

CRITERIA

The New Mexico State Audit Rule 2.2.2.9A (1) (f) which governs the audits of governmental agencies requires audit reports for state agencies are due no later than December 1.

EFFECT

HED financial status and other information is not available to various oversight state agencies and the public in a timely manner.

CAUSE

HED staff did not have the resources necessary to reconcile and verify account balances at June 30, 2016.

RECOMMENDATION

HED should 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 statutes.

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016–010 Continued

MANAGEMENT’S RESPONSE

Management understands the importance of reporting and is committed to meeting all future reporting deadlines. HED will continue to evaluate and improve the internal control structure that supports this reporting and address the staffing challenges that have long existed in ASD. The Department’s expectation is that the control structure and staff will be fully implemented and in place no later than July 1, 2018. The Deputy Cabinet Secretary will lead the implementation with the assistance of additional staff or contracted accounting services.

FEDERAL AWARD FINDING

2016-011 PROCUREMENT VIOLATION (OTHER NON-COMPLIANCE)

Federal Program: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)

Funding Agency: US Department of Education

CFDA Number: 84.334

PR/Award: P334SI20005-15

Period: 7/23/2015 – 7/22/2016

Questioned Costs: None

CONDITION

During our compliance testwork for federal awards, we noted that a portion of an invoice totaling \$974.81 was paid to a vendor that provided services without an authorized purchase order in place at the beginning of the service period. The portion of the invoice paid using federal funding was \$144.00.

CRITERIA

Section 13-1-158 NMSA 1978, Payment for Purchases, states the following:

- A. No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications or unless prepayment is permitted under Section 13-1-98 NMSA 1978 by exclusion of the purchase from the Procurement Code [13-1-28 NMSA 1978].

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016-011 - Continued

2.40.2.2(A) NMAC, which governs the approval of contracts for the purchase of professional services, states that “the contracts review bureau of the department of finance and administration shall review and approve all professional services contracts which result in expenditures greater than five thousand dollars (\$5,000), including applicable gross receipts tax...”

MAPS FIN 4.4, Encumbrances, requires the state agencies to prepare purchase orders through the SHARE system when the amount charged to any expenditure account is greater than \$1,500. The policy further states that the Department of Finance and Administration’s Financial Control Division will audit and approve the encumbrance before the agency contracts or commits resources with a vendor. Uniform Guidance 200.317 Procurements by states requires that property and services procured under a Federal award must follow the same policies and procedures the agency uses for procurements from its non-Federal funds.

EFFECT

HED obtained services without having a valid purchase order in place and did not comply with procurement statutes and regulations when obtaining the services. This exception was reviewed by the General Services Department’s State Procurement Officer who sent a letter citing the infraction to the management officials of HED.

CAUSE

HED signed a contract with the vendor and received services before a purchase order was created and approved through the Department of Finance and Administration.

RECOMMENDATION

HED should review its processes to ensure that they require an approved purchase order to be in place before services are provided in accordance with State statutes, regulations, and policies, and Uniform Guidance.

MANAGEMENT’S RESPONSE

Management is aware of the issue with the payment made and will focus on ensuring the payment procedures adhere to the criteria listed above. The Financial Supervisor will be responsible for all payments made on the behalf of HED. This process has been in place at HED and all that is required is more oversight. This corrective action has already been put into place.

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

FEDERAL AWARD FINDING

2016-012 COST PRINCIPLES (OTHER NON-COMPLIANCE)

Federal Program: Adult Education

Funding Agency: US Department of Education

CFDA Number: 84.002

PR/Award: V002A130032

Period: 7/1/2015 – 9/30/2016

Questioned Costs: None

CONDITION

During our analytical review of account balances, we noted that the fund for Federal Funds (Fund) had miscellaneous revenue in the amount of \$22,526. Per review of additional documentation, a check for \$22,081 was deposited from a sub-recipient representing a cash refund for the Adult Basic Education program. This caused the unadjusted trial balance to overstate miscellaneous revenue, Expenditures-Other, Federal grants receivable and Revenues-Federal grants by \$22,081. An adjustment was recorded to correct the accounts.

CRITERIA

CFR 200 Part 406 states that applicable credits, to the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, must be credited to the Federal award either as a cost reduction or cash refund as appropriate.

EFFECT

Improper recording of federal funds may cause HED to violate cost principles for Federal awards and inaccurately report federal funds.

CAUSE

HED recorded a Federal award cash refund from a sub-recipient to miscellaneous revenue.

RECOMMENDATION

HED should train employees receipting funds to record cash refunds from sub-recipients for Federal awards as a reduction to expenditures or a cash refund to the award agency. HED should review revenues recorded in the Fund on a quarterly basis for propriety.

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016-012 Continued

MANAGEMENT'S RESPONSE

Management agrees with the finding and will provide a more comprehensive review of both receipts being reported in the general ledger and all transactions that make up miscellaneous revenues. The Administrative Services Division (ASD) and the Financial Supervisor will be responsible for the review and recording of the receipts. Procedures to be implemented include the reconciliation of each month end revenue transactions to the deposits made for verification, accuracy, and adjustments. This process will be in place by July 1, 2017.

FEDERAL AWARD FINDING

2016-013 LATE DATA COLLECTION FORM (OTHER NON-COMPLIANCE)

Federal Program: All

Funding Agency: All

CFDA Number: All

PR/Award: All

Period: All

Questioned Costs: None

CONDITION

The HED did not file the Data Collection Form to the Federal Audit Clearinghouse by the required due date of March 31, 2017.

CRITERIA

CFR 200 Part 512 states that the audit must be completed and the data collection must be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.

EFFECT

The Department is not in compliance with the requirements of Uniform Administrative Requirements, Cost Principles and Audit Requirements, which can result in jeopardizing future federal funding.

State of New Mexico
Higher Education Department
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016-013 Continued

CAUSE

HED staff did not have the resources necessary to reconcile and verify account balances at June 30, 2016. 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 lack of adequate staffing does not allow for a solid integrated control environment, centralization of business processes, or effective monitoring of activities to ensure timely completion of the audit and filing of the Data Collection Form.

RECOMMENDATION

HED should 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 and Federal deadlines.

MANAGEMENT'S RESPONSE

Management understands the importance of reporting and is committed to meeting all future reporting deadlines. HED will continue to evaluate and improve the internal control structure that supports federal and state financial reporting objectives, and address the staffing challenges that have long existed in ASD. The Department's expectation is that the control structure and staff will be fully implemented and in place no later than July 1, 2018. The Deputy Cabinet Secretary will lead the implementation with the assistance of additional staff or contracted accounting services.

State of New Mexico
Higher Education Department
Corrective Action Plan
For the Year Ended June 30, 2016

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2006-001 Reconciliation And Tracking Of Loan-For-Service Programs	HED will continue to perform the ECSI system support review. The first focus will be on pre 2000 loans.	Director of Financial Aid	Completed
2010-001 Entity-Level Controls Over Financial Reporting	Management is in the process of evaluating and implementing an internal control process that complies with MAPS and the Department's policies. Financial functions are being centralized back into the Administrative Services Department.	Deputy Cabinet Secretary	July 1, 2018
2015-001 Loan Collection Process	HED is now contracting with a vendor that specialized in education collections. HED has worked with the legislative branch of NM government to prioritize SB 181 Laws 2017 Ch. 82 which adds HED as a claimant agency for tax refund intercept. This is a change from the previous year's planned corrective action.	Director of Financial Aid	June 30, 2017
2015-002 Untimely Deposit Of Cash - Controls Over Cash Receipts	Management has implemented a new process on July 1, 2016, which establishes a log of cash receipts, creates a deposit, provides a review process for the deposit and then makes the deposit within 24 hours. The process involves three individuals to maintain proper separation of duties.	Financial Supervisor	Completed
2015-003 Budgetary Compliance	Management has identified the transactions that created the budget overage. The end of the year transactions will be monitored in order to track the impact of these types of transactions. This process will be part of year end closing procedures and will be implemented by the Financial Supervisor by June 30, 2017.	Financial Supervisor	June 30, 2017

State of New Mexico
Higher Education Department
Corrective Action Plan
For the Year Ended June 30, 2016

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016-001 Restatement Of Fund Balances	Management will review the issues that created the prior period adjustments to fund balance. Those issues will be addressed and any changes in the process will be immediately implemented.	Financial Supervisor	June 30, 2017
2016-002 Reversions	The reversion notification and payment was put on hold until after the audit was complete due to the adjustments found by the auditor, the consultant and HED staff. The final reversion calculation and payment will be upon completion of the audit. Management is aware of the reversion requirements and plans to implement the policy of reversion calculation and payment to the State General Fund during the close out of fiscal year 2017.	Financial Supervisor	August 31, 2017
2016-003 Information Technology General Controls	Management has created a disaster recovery plan which has already been submitted to NM DoIT for approval.	Deputy Cabinet Secretary	October 31, 2017
2016-004 Controls Over Payroll	Management will communicate directly with the supervisor(s) and provide training to make sure proper leave documentation processes are being followed.	Deputy Cabinet Secretary	July 1, 2018
2016-005 Travel And Per Diem	The Financial Supervisor will provide training to employees regarding the \$1,500 rule and will implement procedures to ensure that the proper reimbursement rates are being used. The reimbursement rate for the non-salaried board member has already been updated and the individual is being reimbursed at the correct rate	Financial Supervisor	October 31, 2017

State of New Mexico
Higher Education Department
Corrective Action Plan
For the Year Ended June 30, 2016

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016-006 Use Of State Issued Gas Credit Cards	Management will implement training for gas card use. This training will specifically include the use of high grade fuel with the requirement that all transactions require a receipt.	Financial Supervisor	October 31, 2017
2016-007 Capital Assets	HED has performed a physical inventory as of March 31, 2017. The capital asset listing is now current. HED will continue to perform a physical inventory annually.	Financial Supervisor	Completed
2016-008 Chief Procurement Officer's Reporting Requirement	An individual has been appointed to become the CPO. This individual has already attended a number of trainings and is now involved in reviewing all procurement activities of the agency. The CPO designation will not be official until the individual completes a specific training course offered by GSD/State Purchasing which is not offered again until October 2017.	Deputy Cabinet Secretary	October 31, 2017
2016-009 Payroll Documentation	Management has contacted SPO and requested an audit and complete file review of all HED employee records.	Deputy Cabinet Secretary	November 30, 2017
2016-010 Late Submission of Audit Report	HED will continue to evaluate and improve the internal control structure that supports this reporting and address the staffing challenges that have long existed in ASD.	Deputy Cabinet Secretary	July 1, 2018

State of New Mexico
Higher Education Department
Corrective Action Plan
For the Year Ended June 30, 2016

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2016-011 Procurement Violation	Management is aware of the issue and will focus on ensuring the payment procedures adhere to the federal and state requirements for allowable costs.	Financial Supervisor	Completed
2016-012 Cost Principles	Management is to provide a more comprehensive review of both receipts being reported in the general ledger and all transactions that make up miscellaneous revenues. Procedures to be implemented include the reconciliation of each month end revenue transactions to the deposits made for verification, accuracy, and adjustments.	Financial Supervisor	July 1, 2017
2016 – 013 Late Data Collection Form	HED will continue to evaluate and improve the internal control structure that supports this reporting and address the staffing challenges that have long existed in ASD.	Deputy Cabinet Secretary	July 1, 2018

State of New Mexico
Higher Education Department
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2016

<u>Prior Audit Findings</u>	<u>Current Status</u>
2006-001 Reconciliation and Tracking of Loan For Service Programs	Repeated
2010-001 Entity-Level Controls Over Financial Reporting	Repeated & Modified
2015-001 Loan Collection Process	Repeated
2015-002 Untimely Deposit of Cash	Repeated & Modified
2015-003 Budgeted Expenditures in Excess of Revenues	Repeated & Modified

State of New Mexico
Higher Education Department
Exit Conference
For the Year Ended June 30, 2016

Exit Conference

An exit conference was conducted on May 3, 2017, in which the contents of this report were discussed with the following:

New Mexico Higher Education Department

Dr. Barbara Damron	Cabinet Secretary
Andrew Jacobson	Deputy Cabinet Secretary
Dr. Harrison Rommel	Financial Aid Director
Jeneva LiRosi	General Counsel

New Mexico Higher Education Department – Consultant

Javier Machuca, CPA	REDW
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New Mexico Office of the State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA	Deputy State Auditor
Emily Oster, CPA, CGMA	Quality Control Director
Lynette Kennard, CPA, CGFM	Audit Director
Jessica Lucero	Audit Supervisor