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**State of New Mexico**  
**Higher Education Department**

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*Financial Statements*

*and*

*Independent Auditor's Report*

*June 30, 2017*

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
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JUNE 30, 2017**

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**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
OFFICIAL ROSTER  
JUNE 30, 2017**

<u>Name</u>	<u>Title</u>
Dr. Barbara Damron	Cabinet Secretary
Andrew Jacobson	Deputy Cabinet Secretary
Vacant	Administrative Services Director
Michelle Casias	Director of Private and Proprietary Schools
Jeneva LiRosi, J.D.	General Counsel
Lida Alikhani	Public Information Officer
Melanie Granito	Gear Up Director
Dina Advani	Director of Research and Analysis
Francis Bannowsky, J.D.	AE Director
Dr. Harrison Rommel	Financial Aid & Institutional Finance Director
Vacant	Chief Information Officer



**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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the New Mexico Higher Education Department (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements 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. The audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States; and those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Department,

as of June 30, 2017, and, the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

### *Reporting Entity*

As discussed in Note 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, 2017, and the changes in its financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Related-Party Relationship*

As discussed in Note 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 analysis on pages 4-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department’s basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The other supplemental schedules, including the schedule of capital appropriations 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 combining and individual fund 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 combining and individual fund financial statements, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 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.

Office of the State Auditor  
Santa Fe, New Mexico  
October 25, 2017



**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017. 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 thirty one 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;
- ◆ Licensing and Registration of Private, Proprietary, and Out-of-State Institutions; and
- ◆ Policy Analysis, Research, and Fiscal Impact Analysis.

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 success.

During 2017, 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:

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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.

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, 2017. 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 2017 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.

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FOR THE YEAR ENDED JUNE 30, 2017**

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 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.

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*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 non-major funds and fiduciary funds and to report the details of federal grant awards and expenditures. The information is provided in compliance with federal and state reporting requirements.

### **Financial Highlights**

#### *New Mexico Higher Education Department*

The Department has six (6) major funds.

- ◆ The General Fund (SHARE Fund 91000) accounts for administration of HED. The other funds are primarily pass-through funds and are described in more detail in the financial statement footnotes.
- ◆ The Financial Aid Fund (SHARE Fund 21600) accounts for all financial aid type programs.
- ◆ The Lottery Tuition Fund (SHARE Fund 63700) accounts for all monies for distribution to New Mexico's public college educational institutions for tuition assistance for qualifying New Mexico 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2017**

**Net Position**

The Department's net position at June 30, 2017 decreased by \$3.1 million in comparison to 2016. Total assets decreased \$4 million mainly due to the decreases in receivables from lottery and capital projects. Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2017. Total assets decreased by just 11% over 2016 while liabilities decreased 54.9%.

**Table A-1 Detail of Department Condensed Net Position  
as of June 30, 2017 and 2016 (thousands)**

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percentage of Change</u>
<b>Assets</b>				
Current assets	\$ 19,065	\$ 22,577	\$ (3,512)	-15.56%
Noncurrent assets	13,482	13,941	(459)	-3.29%
Capital assets, net of accumulated depreciation	<u>14</u>	<u>22</u>	<u>(8)</u>	<u>-36.36%</u>
Total assets	<u>32,561</u>	<u>36,540</u>	<u>(3,979)</u>	<u>-10.89%</u>
<b>Liabilities</b>				
Current liabilities	6,686	14,937	(8,251)	-55.24%
Compensated absences	<u>104</u>	<u>141</u>	<u>(37)</u>	<u>-26.24%</u>
Total liabilities	<u>6,790</u>	<u>15,078</u>	<u>(8,288)</u>	<u>-54.97%</u>
Deferred inflows	<u>225</u>	<u>147</u>	<u>78</u>	<u>53.06%</u>
<b>Net Position</b>				
Investments in capital assets, net of debt	14	22	(8)	-36.36%
Restricted	25,532	21,293	4,239	19.91%
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	
Total net position	<u>\$ 25,546</u>	<u>\$ 21,315</u>	<u>\$ 4,231</u>	<u>19.85%</u>

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2017**

**Changes in Net Position**

The Department experienced a change in net position at June 30, 2017 of \$1.6 million in comparison to 2016. Total program revenues increased by 8.9% due to an increase in federal programs. Lottery revenue decreased by \$10 million or 20.8%. Offsetting this was an increase in bond proceeds of \$12.8 million or 100%. Table A-2 summarizes the Department's changes in net position for the fiscal year ended June 30, 2017.

**Table A-2 Statement of Activities  
as of June 30, 2017 and 2016 (thousands)**

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percentage of Change</u>
<b>Program Revenues</b>				
Program revenues	\$ 10,219	\$ 9,377	\$ 842	8.98%
Total program revenues	<u>10,219</u>	<u>9,377</u>	<u>842</u>	<u>8.98%</u>
<b>General Revenues (Expenses)</b>				
State appropriations	35,474	52,506	(17,032)	-32.44%
Other financing sources	18,502	1,709	16,793	982.62%
Education expenses	(130,202)	(131,668)	1,466	-1.11%
Reversions	(193)	(224)	31	-13.84%
Proceeds of state general obligation and severance tax bonds	24,742	11,869	12,873	108.46%
Proceeds from lottery	37,836	47,782	(9,946)	-20.82%
Miscellaneous	28	3,559	(3,531)	-99.21%
Total general revenues (expenses)	<u>(13,813)</u>	<u>(14,467)</u>	<u>654</u>	<u>-4.52%</u>
Investment earnings	686	543	143	26.34%
Total other investment income (expenses)	<u>686</u>	<u>543</u>	<u>143</u>	<u>26.34%</u>
Change in net position	(2,908)	(4,547)	1,639	-36.05%
Net position, beginning	21,315	25,862	(4,547)	-17.58%
Restated	7,140	-	7,140	
Net position, beginning of year, restated	<u>28,455</u>	25,862	2,593	10.03%
<b>Net position, ending</b>	<u>\$ 25,547</u>	<u>\$ 21,315</u>	<u>\$ 4,232</u>	<u>19.85%</u>

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2017**

**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 FY18, the Legislature initially appropriated a total of \$107,216.9 (in thousands) to the Higher Education Department, including \$34,496.2 in General Fund. Compared to FY17 funding levels, this was a -2.1% decrease overall.

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, 2017. The Department's budget was reduced by \$681 thousand as a result of the -5.5% reduction imposed on state agencies during the 2016 special session. The Department reduced the operating expenses and was within budget limits at the end of the year.

The Department's operating budget and its non-operating budgets for fiscal year 2017 are contained in the General Appropriations Act, Laws of 2016 Chapter 11 (regular session) and Senate Bill 9 Laws of 2016 Chapter 6 (special session).

**Economic and Budgetary Factors**

The Department is affected by the economy in areas such as general fund appropriation and scholarship funds derived from lottery and alcohol proceeds. Education is one of the top discussion topics in today's political and economic environment.

***Trends in the U.S. Economy***

The U.S. economy continued to grow in State fiscal year 2017, although at a slower pace. The national economy, as measured by real gross domestic, grew by 2.1 percent in fiscal year 2017, hindered by a slowdown in the energy sector and a decline in business investment. Total employment levels averaged 2.3 million, or 1.6 percent, above fiscal year 2016 (or 1.6 percent). U.S. average hourly wages grew by 2.7 percent, exceeding low inflation of 1.8 percent to increase worker purchasing power of paychecks. However, this real growth in wages was partially offset by increases in healthcare costs of 3.8 percent.

U.S. economic growth is expected to accelerate in fiscal year 2018, with projected GDP growth of 2.6 percent. The Federal Reserve is expected to raise short-term interest rates in the early half of the fiscal year in response to stronger inflation and ongoing employment gains. Housing prices are projected to continue to rise in fiscal year 2018, while business spending is anticipated to show modest growth.

***New Mexico Economy***

The New Mexico economy continued to stabilize in fiscal year 2017, as state wages and salaries grew by

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1.0 percent and total personal income in the state grew by 1.6 percent. Oil and natural gas prices stabilize in fiscal year 2017, which resulted in increased drilling activity and employment in the state's oil and natural gas producing sector. During fiscal year 2017, New Mexico employment growth averaged 0.5 percent, adding 4,500 jobs. The, Education and Health Services sector averaged 4,150 additional jobs, while the Leisure and Hospitality sector increased by 3,300 jobs. The Mining Sector averaged 3,400 fewer jobs than in fiscal year 2016.

Average prices in fiscal year 2017 for crude oil and natural gas were \$45.10 per barrel and \$3.27 per thousand cubic feet, respectively. Prices for these commodities reached their recent peaks in fiscal year 2014, and fiscal year 2017 prices represented a decrease of 52.6 from the peak for oil and 36.3 percent from the peak for natural gas. Notwithstanding the price drop, New Mexico oil production reached a record 150.0 million barrels in fiscal year 2017, making New Mexico the fifth largest producing state for oil, as well as the tenth largest for natural gas .

Dependence on federal government spending has also been a headwind for the state's economy because of constrained federal budget growth. Although direct federal government employment has begun to stabilize in New Mexico, in fiscal year 2017 it was down to its second lowest level since at least 1990.

Contact Information

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**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

	Governmental Activities
<b>Assets</b>	
Current assets	
Investment in State General Fund Investment Pool	\$ 11,046,852
Due from federal government	2,603,247
Accounts Receivable	52
Due from State of New Mexico Component Unit	3,044,533
Due from State General Fund	74
Due from Other State Agencies	2,370,176
Total current assets	19,064,934
Noncurrent assets	
Loans and interest receivable, net of allowance for doubtful accounts	13,482,567
Capital assets	36,858
Less accumulated depreciation	(22,564)
Total noncurrent assets	13,496,861
Total assets	\$ 32,561,795
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 5,473,154
Investment in State General Fund Investment Pool (overdraft)	917,566
Accrued salaries and benefits payable	108,105
Due to federal government	17,500
Due to other state agencies	89,065
Stale dated warrants	46,274
Compensated absences due within one year	103,561
Other liabilities	34,392
Total current liabilities	6,789,617
Total liabilities	6,789,617
<b>Deferred Inflows</b>	
Private school licensing and registration fees	224,943
<b>Net Position</b>	
Net investment in capital assets	14,294
Restricted	25,532,941
Total net position	25,547,235
Total liabilities, deferred inflows, and net position	\$ 32,561,795

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, 2017**

	Program Revenues			
Expenses	Charges for Services	Operating Grants	Net Revenue (Expense) and Changes in Net Position	
<b>Functions/Programs</b>				
<b>Governmental Activities</b>				
General government	\$ 11,906,974	\$ -	\$ -	\$ (11,906,974)
Depreciation	7,372	-	-	(7,372)
<b>Program Activities</b>				
General government				
Adult Basic Education	4,375,974	-	4,546,215	170,241
GEAR-UP	5,022,373	-	4,922,964	(99,409)
No Child Left Behind	348,108	-	348,108	-
John R. Justice	16,600	-	16,600	-
Financial Aid Programs	25,017,390	-	60,398	(24,956,992)
Faculty Endowment	-	-	-	-
Lottery Scholarships	57,898,463	-	-	(57,898,463)
Capital Projects Flowthrough	25,233,415	-	-	(25,233,415)
Other funds	375,406	324,789	-	(50,617)
Total governmental activities	\$ 130,202,075	\$ 324,789	\$ 9,894,284	(119,983,001)
<b>General Revenues (Expenses)</b>				
State General Fund Appropriations				35,473,974
Bond proceeds				24,741,649
Lottery proceeds				37,835,947
Other financing sources				18,501,801
Reversion to State General Fund (FY 2017)				(192,998)
Miscellaneous revenue				28,222
Interest on Loans				620,912
Investment earnings				66,036
Total general revenues (expenses)				117,075,543
Change in net position				(2,907,458)
Net position, beginning of year				21,314,443
Restated (Note 13)				7,140,250
Net position, beginning of year, as restated				28,454,693
<b>Net position, end of year</b>				<b>\$ 25,547,235</b>

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	General Operating Fund - 91000	Financial Aid -21600	Lottery Tuition - 63700
<b>ASSETS</b>			
State General Fund Investment Pool	\$ 830,176	\$ 4,237,796	\$ 2,060,839
Federal Grants Receivable	-	-	-
Accounts Receivable	-	-	-
Due from Other Funds	-	60,398	-
Due from State Component Unit	-	-	3,044,533
Due from State General Fund	74	-	-
Due from Other State Agencies	50,000	-	1,734,667
Total Assets	<u>\$ 880,250</u>	<u>\$ 4,298,194</u>	<u>\$ 6,840,039</u>
Non-current Assets:			
Loans and interest receivable, net of allowance for doubtful Accounts	-	13,482,567	-
	<u>\$ 880,250</u>	<u>\$ 17,780,761</u>	<u>\$ 6,840,039</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Voucher Payable	\$ 720,642	\$ 95,352	\$ 12,618
Interest in SIGFIP Overdraft	-	-	-
Payroll Benefits & Taxes Payable	80,140	-	-
Due to Other Funds	60,398	-	-
Payable to federal government	-	-	-
Due to State General Fund	-	-	-
State Dated Warrants	1,580	44,694	-
Other Liabilities	17,490	16,017	-
Due to Other State Agencies	-	-	-
Total Liabilities	<u>880,250</u>	<u>156,063</u>	<u>12,618</u>
Deferred Inflows	-	-	-
Fund Balances:			
Nonspendable:			
Non-Current: Loans receivable	-	13,482,567	-
Restricted:			
Special Purposes	-	4,142,131	6,827,421
Unassigned:			
Unassigned	-	-	-
Total Fund Balances	<u>-</u>	<u>17,624,698</u>	<u>6,827,421</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 880,250</u>	<u>\$ 17,780,761</u>	<u>\$ 6,840,039</u>

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

Capital Projects FY11 -89200	Federal Funds - 12150	Faculty Endowment - 47900	Other Governmental Funds	Total Governmental Funds
\$ 3,046,587	\$ -	\$ 643	\$ 870,811	\$ 11,046,852
-	2,603,247	-	-	2,603,247
-	-	-	52	52
-	-	-	-	60,398
-	-	-	-	3,044,533
-	-	-	-	74
585,509	-	-	-	2,370,176
<u>\$ 3,632,096</u>	<u>\$ 2,603,247</u>	<u>\$ 643</u>	<u>\$ 870,863</u>	<u>\$ 19,125,332</u>
-	-	-	-	13,482,567
<u>\$ 3,632,096</u>	<u>\$ 2,603,247</u>	<u>\$ 643</u>	<u>\$ 870,863</u>	<u>\$ 32,607,899</u>
\$ 3,103,029	\$ 1,519,016	\$ -	\$ 22,497	\$ 5,473,154
-	917,566	-	-	917,566
-	27,965	-	-	108,105
-	-	-	-	60,398
-	-	-	17,500	17,500
-	-	-	-	-
-	-	-	-	46,274
-	885	-	-	34,392
-	89,065	-	-	89,065
<u>3,103,029</u>	<u>2,554,497</u>	<u>-</u>	<u>39,997</u>	<u>6,746,454</u>
-	-	-	224,943	224,943
-	-	-	-	13,482,567
529,067	48,750	643	605,923	12,153,935
-	-	-	-	-
<u>529,067</u>	<u>48,750</u>	<u>643</u>	<u>605,923</u>	<u>25,636,502</u>
<u>\$ 3,632,096</u>	<u>\$ 2,603,247</u>	<u>\$ 643</u>	<u>\$ 870,863</u>	<u>\$ 32,607,899</u>

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017**

**Total fund balance, governmental funds** \$ 25,636,502

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

Governmental Capital Assets	36,858	
Accumulated Depreciation	(22,564)	
		14,294

Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the government funds:

Compensated Absences		(103,561)
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<b>Net position of governmental activities in the statement of net position</b>		\$ 25,547,235
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The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	General Operating Fund - 91000	Financial Aid - 21600	Lottery Tuition - 63700
<b>REVENUES</b>			
Federal Grants	\$ -	\$ 60,398	\$ -
Other Licenses and Permits	-	-	-
Interest on Investments	-	-	63,753
Interest on Loans	-	620,912	-
Miscellaneous Revenue	15,779	-	12,443
Total Revenues	<u>15,779</u>	<u>681,310</u>	<u>76,196</u>
<b>EXPENDITURES</b>			
Current:			
Personnel Services & Employee Benefits	2,164,129	-	-
Contractual Services	864,261	-	-
Other	8,915,865	23,017,427	57,898,463
Total Expenditures	<u>11,944,255</u>	<u>23,017,427</u>	<u>57,898,463</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,928,476)</u>	<u>(22,336,117)</u>	<u>(57,822,267)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
General Fund Appropriation	12,070,974	23,403,000	-
Bond Proceeds Appropriations	-	-	-
Lottery Proceeds	-	-	37,835,947
Other financing source	50,500	-	17,928,969
Reversions to State General Fund	(192,998)	-	-
Total Other Financing Sources and Uses	<u>11,928,476</u>	<u>23,403,000</u>	<u>55,764,916</u>
Net Change in Fund Balances	<u>-</u>	<u>1,066,883</u>	<u>(2,057,351)</u>
Fund Balance - beginning	-	16,557,815	5,419,059
Restated	-	-	3,465,713
Fund Balance, beginning of year, as restated	-	16,557,815	8,884,772
<b>Fund Balances - ending</b>	<u>\$ -</u>	<u>\$ 17,624,698</u>	<u>\$ 6,827,421</u>

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Capital Projects FY11 -89200	Federal Funds - 12150	Faculty Endowment - 47900	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 9,833,886	\$ -	\$ -	\$ 9,894,284
-	-	-	324,789	324,789
-	-	1,518	765	66,036
-	-	-	-	620,912
-	-	-	-	28,222
-	9,833,886	1,518	325,554	10,934,243
-	821,550	-	87,344	3,073,023
-	1,293,069	-	32,693	2,190,023
25,233,415	7,648,436	-	2,255,332	124,968,938
25,233,415	9,763,055	-	2,375,369	130,231,984
(25,233,415)	70,831	1,518	(2,049,815)	(119,297,741)
-	-	-	-	35,473,974
24,741,649	-	-	-	24,741,649
-	-	-	-	37,835,947
-	-	(299,500)	821,832	18,501,801
-	-	-	-	(192,998)
24,741,649	-	(299,500)	821,832	116,360,373
(491,766)	70,831	(297,982)	(1,227,983)	(2,937,368)
(2,653,704)	(22,081)	298,625	1,833,906	21,433,620
3,674,537	-	-	-	7,140,250
1,020,833	(22,081)	298,625	1,833,906	28,573,870
\$ 529,067	\$ 48,750	\$ 643	\$ 605,923	\$ 25,636,502

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>Net change in fund balances - total governmental funds</b>	\$ (2,937,368)
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Depreciation Expense	(7,372)
Change in Compensated Absences	37,282
<b>Change in Net Position</b>	<u><u>\$ (2,907,458)</u></u>

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



**STATE OF NEW MEXICO  
HIGHER EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS  
GENERAL OPERATING FUND - 91000  
FOR THE YEAR ENDED 30, 2017**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	15,779	(15,779)
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>15,779</u>	<u>(15,779)</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	2,459,200	2,187,200	2,164,129	23,071
Contractual Services	844,000	878,940	864,261	14,679
Other	8,811,000	9,078,000	8,915,865	530,035
Total Expenditures	<u>12,114,200</u>	<u>12,144,140</u>	<u>11,944,255</u>	<u>567,785</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(12,114,200)</u>	<u>(12,144,140)</u>	<u>(11,928,476)</u>	<u>(583,564)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
General Fund Appropriation	11,746,300	11,776,240	12,070,974	(294,734)
Special Appropriation	367,900	367,900	-	367,900
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	50,500	(50,500)
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	(192,998)	192,998
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>12,114,200</u>	<u>12,144,140</u>	<u>11,928,476</u>	<u>215,664</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL BUDGETARY BASIS  
FINANCIAL AID - 21600  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Federal Grants	\$ -	\$ -	\$ 60,398	\$ 60,398
Other Licenses and Permits	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	22,661	22,661
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>83,059</u>	<u>83,059</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	23,055,700	23,055,700	22,195,765	859,935
Total Expenditures	<u>23,055,700</u>	<u>23,055,700</u>	<u>22,195,765</u>	<u>859,935</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(23,055,700)</u>	<u>(23,055,700)</u>	<u>(22,112,706)</u>	<u>(776,876)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
General Fund Appropriation	23,055,700	23,055,700	23,403,000	(347,300)
Bond Proceeds Appropriations	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>23,055,700</u>	<u>23,055,700</u>	<u>23,403,000</u>	<u>(347,300)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,290,294</u>	
Reconciliation to change in fund balance - GAAP Basis:				
Total interest on loans			598,249	
Total miscellaneous expenditures			<u>(821,660)</u>	
Net change in fund balance - GAAP basis			<u>\$ 1,066,883</u>	

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS  
LOTTERY TUITION - 63700  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>REVENUES</b>				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	63,753	63,753
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	12,443	12,443
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>76,196</u>	<u>76,196</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	60,334,400	60,334,400	57,898,463	2,435,937
Total Expenditures	<u>60,334,400</u>	<u>60,334,400</u>	<u>57,898,463</u>	<u>2,435,937</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(60,334,400)</u>	<u>(60,334,400)</u>	<u>(57,822,267)</u>	<u>(2,359,741)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	42,000,000	42,000,000	37,835,947	4,164,053
Other financing source	-	-	-	-
Operating Transfers In	18,334,400	18,334,400	17,928,969	405,431
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>60,334,400</u>	<u>60,334,400</u>	<u>55,764,916</u>	<u>4,569,484</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,057,351)</u>	

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS  
CAPITAL PROJECTS FY2011 -89200  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Severance tax bond appropriations	\$ 5,307,130	\$ 5,307,130	\$5,307,130	\$ -
General obligation bond appropriations	19,320,610	19,320,610	19,434,519	113,909
Total budgeted revenues	<u>24,627,740</u>	<u>24,627,740</u>	<u>24,741,649</u>	<u>113,909</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	38,597,778	38,597,778	25,233,415	13,364,363
Total budgeted expenditures	<u>38,597,778</u>	<u>38,597,778</u>	<u>25,233,415</u>	<u>13,364,363</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(13,970,038)</u>	<u>(13,970,038)</u>	<u>(491,766)</u>	<u>13,478,272</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
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 Balance	<u>\$ (13,970,038)</u>	<u>\$ (13,970,038)</u>	<u>\$ (491,766)</u>	

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FEDERAL FUNDS - 12150  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal Grants	\$ 9,489,800	\$ 12,098,073	\$ 9,833,886	\$ (2,264,187)
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>9,489,800</u>	<u>12,098,073</u>	<u>9,833,886</u>	<u>(2,264,187)</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	1,278,700	1,330,274	821,550	508,724
Contractual Services	715,000	1,454,414	1,293,069	161,345
Other	7,496,100	9,313,385	7,648,436	1,664,949
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>9,489,800</u>	<u>12,098,073</u>	<u>9,763,055</u>	<u>2,335,018</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>70,831</u>	<u>70,831</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
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 Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,831</u>	

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2017**

	<b>Endowed Merit Scholars Private- Purpose Trust Fund 88100</b>	<b>College Affordability Endowment Trust Fund 23900</b>	<b>Total Trust Fund</b>
<b>ASSETS</b>			
Interest in State Treasurer General Fund Investment Pool	\$ 2,194,718	\$ -	\$ 2,194,718
Due from other funds	-	-	-
Long-term investments	-	1,442,520	1,442,520
Total Assets	2,194,718	1,442,520	3,637,238
<b>NET POSITION</b>			
Assets held for others			
In-trust for scholarships	2,194,718	1,442,520	3,637,238
Total Net Position	\$ -	\$ -	\$ -

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, 2017**

	<b>Endowed Merit Scholars Private- Purpose Trust Fund 88100</b>	<b>College Affordability Endowment Trust Fund 23900</b>	<b>Total Trust Fund</b>
<b>ADDITIONS</b>			
Interest from investments	\$ 15,496	\$ 98,702	\$ 114,198
Unrealized gain on investment	-	756,830	756,830
Total Additions	<u>15,496</u>	<u>855,532</u>	<u>\$ 871,028</u>
<b>DEDUCTIONS</b>			
Professional investments fees	-	11,056	11,056
Distributions in accordance with trust agreements	-	7,000,000	7,000,000
Total Deductions	<u>-</u>	<u>7,011,056</u>	<u>7,011,056</u>
<b>CHANGE IN NET POSITION</b>	15,496	(6,155,524)	(6,140,028)
Net Position, beginning	<u>2,179,222</u>	<u>7,598,044</u>	<u>9,777,266</u>
Net Position, ending	<u>\$ 2,194,718</u>	<u>\$ 1,442,520</u>	<u>\$ 3,637,238</u>

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

**STATE OF NEW MEXICO**  
**HIGHER EDUCATION DEPARTMENT**  
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**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 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



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**2) Summary of Significant Accounting Policies - continued**

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.

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

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**2) Summary of Significant Accounting Policies - continued**

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

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,

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**HIGHER EDUCATION DEPARTMENT**  
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**2) Summary of Significant Accounting Policies - continued**

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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

*General Fund*—The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

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

- 21600 Financial Aid Fund
- 63700 Lottery Tuition Fund
- 89200 Capital Projects Fund (FY2011)
- 12150 Federal Funds
- 47900 Faculty Endowment Fund
- 10990 AE Instructional Material Fund
- 21700 College Affordability Scholarship Fund

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**2) Summary of Significant Accounting Policies - continued**

29200 College Goal Sunday Grant  
34400 Post-Secondary Educational Institution Fund  
54500 Higher Education Performance Fund  
64400 Capital Projects  
78200 Program Development & Enhancement Fund  
67970 Legislative Endowment Scholarship Fund  
89000 American Recovery and Reinvestment Act Fund

**Fiduciary Fund Types**

Endowed Merit Scholars Private-Purpose Trust Fund (SHARE Fund 67970) 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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**2) Summary of Significant Accounting Policies - continued**

**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, 2017. Deferred inflows of resources for the year ended June 30, 2017 amounted to \$224,943 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.

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**2) Summary of Significant Accounting Policies - continued**

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.
- 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

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**2) Summary of Significant Accounting Policies - continued**

related to accounts payable that were not paid timely. This could result in a negative fund balance in the modified accrual basis financial statements reverting fund. Appropriation periods are sometimes for periods in excess of twelve month(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.

Fund 49700 – Faculty Endowment was not budgeted in fiscal year 2017.

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

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**2) Summary of Significant Accounting Policies - continued**

employees for benefits through paid time off or some other means, such as cash payments at termination or retirement. Where applicable, the compensated absence liability is presented in two parts in the government-wide financial statements as current portion and long- term portion. The current portion is the amount expected to be expended during the following fiscal year. It is an estimate management determined by applying a percentage to the prior year's ending liability. The percentage used was determined by comparing the amount actually paid out during the fiscal year with the prior year's liability balance.

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

Employees accumulate sick leave at 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.



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**2) Summary of Significant Accounting Policies - continued**

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 purpose. The Department has nonspendable fund balance that consists of \$13,482,567 of loans outstanding at June 30, 2017.

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 \$12,153,935 as of June 30, 2017.

*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, 2017.

*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, 2017.

*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.

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**2) Summary of Significant Accounting Policies - continued**

*Deficit Fund Balances*

The funds with deficit fund balances include the Post-Secondary Educational Institution #34400 in the amount of \$(146,861).

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 \$25,547,235 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.

**3) Cash and Investments**

Cash

Included in cash is \$10,129,360 (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

**STATE OF NEW MEXICO**  
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**3) Cash and Investments - continued**

deposited in the State General Fund Investment Pool (SGFIP).

As provided for in Chapter 8-6 of the New Mexico Statutes Annotated 1978, the New Mexico State Treasurer shall receive and keep all monies of the State, except when otherwise provided, and shall disburse the public money upon lawful warrants. The State Treasurer's Organization (STO) acts as the State's bank. The Agencies' cash receipts are deposited with STO and pooled in a State Investment Fund, when amounts are greater than immediate needs they are placed into short-term investments. When the Agencies makes payments to vendors and employees they are made from this pool and their claims on the pool are reduced.

The comprehensive cash reconciliation model, which compares aggregated agency claims on State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is now in its third year. As of June 30, 2017, resources held in the pool were equivalent to corresponding agencies claims on those resources. All claims are recorded in SHARE shall be honored at face value. 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, 2017. 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, 2017, 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 \$2,194,718 is presented as a Fiduciary Fund.

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**3) Cash and Investments - continued**

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, 2017, 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 #	Program	State Treasurer Balance	Outstanding Warrants	Reconciled Balance
91000	General Fund	\$ 830,250	\$ -	\$ 830,250
21600	Student Financial Aid	4,237,796	-	4,237,796
63700	Lottery Tuition Fund	2,060,839	-	2,060,839
89200	Capital Projects FY2011	3,046,587	-	3,046,587
12150	Federal Funds	(917,566)	-	(917,566)
47900	Faculty Endowment Fund	643	-	643
10990	ABE Instructional Materials	3	-	3
21700	College Affordability	26,453	-	26,453
29200	College Goal Sunday Grant Fund	8,580	-	8,580
34400	Post-Secondary Education Institution Fund	85,815	-	85,815
54500	Performance Fund	2,091	-	2,091
64400	Capital Projects	-	-	-
78200	Performance Development Fund	577	-	577
67970	Legislative Endowment Scholarship	729,792	-	729,792
89000	ARRA	17,500	-	17,500
	Total	<u>\$10,129,361</u>	\$ -	<u>\$10,129,360</u>

Non-Expendable Trust Fund:

Fund	Program		
88100	Legislative Endowment Merit Scholarship Non-expendable Trust Fund included above	\$	2,194,718
23900	College Affordability Endowment		-
	Total Non-expendable Trust Fund	<u>\$</u>	<u>2,194,718</u>

Reconciliation to Statement of Net Position:

Cash and Investments	\$ 11,046,926
Less: Overdraft	(917,566)
Total Expendable Cash	<u>\$ 10,129,360</u>

**STATE OF NEW MEXICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017**

**3) Cash and Investments - continued**

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

The value of the investments maintained at the State Investment Council External Pooled Investment Funds and held by the College Affordability Trust Fund are as follows at June 30, 2017:

Investment Type	Fair Value
Core Bonds Pool	\$ 707,606
Large Cap Activity Pool	133,803
Large Cap Index Pool	167,166
Small/Mid Cap Pool	132,628
Non US Developed Markets Pool	301,317
Non US Emerging Markets Pool	-
Total long-term investments	\$ 1,442,520

*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	Total
21600 Financial Aid	\$ 60,398	\$ 60,398
	\$ 60,398	\$ 60,398

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	\$2,603,247	US Department of Education
		Total Due from Federal Government	\$2,603,247	

Due from State General Fund

Amount shown as “Due from State General Fund” represents an amount over reverted to the State General Fund. The amount recorded are currently a 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
91000	General Fund	Over reversion	\$ 74	State General Fund
		Total Due from State General Fund	\$ 74	

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**4) Receivables - continued**

Due from Other State Agencies

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

Due from Other State Agencies:

Share Fund #	Fund	Description	Amount	Due From
63700	Lottery Tuition	Lottery Proceeds	\$ 1,734,667	NM Lottery Authority
89200	Capital Projects	Bond Proceeds	585,509	NM Board of Finance
91000	General Fund	Employee Sharing	<u>50,000</u>	NM Public Education Dept.
Total Due from Other State Agencies			<u>\$ 2,370,176</u>	

Due from State of New Mexico Component Unit

Amounts shown as “Due from State of New Mexico Component Unit” represent expenditures to be reimbursed from agencies for lottery ticket sales. The amounts recorded are currently receivable or were received subsequent to the balance sheet date; therefore, no allowance for bad debt has been recorded.

Due from State of New Mexico Component Unit

Share Fund #	Fund	Description	Amount	Due From
63700	Lottery Tuition	Lottery Proceeds	<u>\$ 3,044,533</u>	NM Lottery Authority
Total Due from State of New Mexico Component Unit			<u>\$ 3,044,533</u>	

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).

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**4) Receivables - continued**

Loans and Interest Receivable

Loan Type	Loan Balance 2016 As				Loan Balance 2017	Total Accrued Interest
	Restated	Advances	Payments	Srv Applied		
ALL	\$ 581,144	\$ 48,000	\$ (592)	\$ (135,200)	\$ 493,352	\$141,414
BDS	225,214	21,600	(15,694)	(25,920)	205,200	20,736
HPL	25,000	1,500	(78)	-	26,422	25,314
LRP	39,308	1,300	(3,651)	(1,300)	35,657	21,274
MED	2,456,499	349,600	-	(107,006)	2,699,093	1,022,202
MND	995,326	75,000	(15,120)	(261,106)	794,100	233,927
NLS	2,092,387	335,936	(8,973)	(318,204)	2,101,146	1,491,623
NMS	87,640	-	(396)	(1,500)	85,744	160,788
NSE	39,000	48,750	-	(25,250)	62,500	86
OST	211,296	-	-	-	211,296	485,764
PCP	262,000	-	(80)	(33,750)	228,170	2,024
SEN	69,378	-	-	(12,390)	56,988	153,817
TCH	270,333	12,900	(1,883)	(16,000)	265,350	237,327
TQ1	9,190	-	-	-	9,190	16,607
TRP	1,487	-	(459)	-	1,028	15
WCH	9,628,618	2,078,983	(174,694)	(1,569,426)	9,963,481	889,760
	<u>16,993,820</u>	<u>2,973,569</u>	<u>(221,620)</u>	<u>(2,507,052)</u>	<u>17,238,717</u>	<u>4,902,678</u>
				Allowance for uncollectible accounts	<u>(8,658,828)</u>	
				Net loans receivable	<u>\$13,482,567</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 \$2,507,052 for the year ended June 30, 2017. 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 \$5,942,035 for interest and \$2,716,793 for principal. Interest income for the year was \$620,912 of which approximately 95% of the balance is included in the allowance for doubtful accounts. Total accrued interest at June 30, 2017 is \$4,902,678.



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**5) Capital Assets**

The capital assets activity for the year ended June 30, 2017, is as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Equipment and machinery	\$ 36,858	-	-	\$ 36,858
Total at historical cost	36,858	-	-	36,858
Less accumulated depreciation:				
Equipment and machinery	15,192	7,372	-	22,564
Total accumulated depreciation	15,192	7,372	-	22,564
Capital assets, net	\$ 21,667	\$ (7,372)	\$ -	\$ 14,294

Depreciation expense was charged to function as follows:

General government	\$ 7,372
Total depreciation	\$ 7,372

**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, 2017. The General Fund liquidates compensated absences liabilities.

A summary of changes in the compensated absences payable for the year ended June 30, 2017, is as follows:

Compensated Absences Payable

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017	Amount Due Within One Year
General Fund	\$ 140,843	57,676	(94,958)	\$ 103,561	\$ 103,561

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017**

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

Due To Other State Agencies:

Share Fund #	Fund	Description	Amount	Due To
12150	Federal Funds	Program disbursement	\$ 89,065	NM Department of Corrections
Total Due to Other State Agencies			<u>\$ 89,065</u>	

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, 2017. In computing the reversion amount, the Department excludes department codes that are used exclusively to account for federal or other non-state providing funding.

Pursuant to the ADDENDA TO ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS issued by the State Controller on July 14, 2017, the reversion to the State General Fund was treated as a cash transaction as of June 30th, rather than recording the amount as a liability which was the practice in prior years. The reversion amount was settled using the state’s adjustment period on October 6, 2017.

**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 terms. Expenditures for operating leases and other rentals for the year ended June 30, 2017 were \$310,166.

Future minimum payments under these operating leases are as follows:

Year e nded June 30	Amount
2018	\$ 306,382
2019	309,289
2020	306,493
2021	303,469
2022	306,645
2023-2026	610,875
Thereafter	<u>125,064</u>
Total	<u>\$ 2,268,217</u>

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**9) Other Financing Sources/Uses and Transfers**

Other Financing Sources/Uses

<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 2017 reversion		192,998
91000	General Fund Appropriations Laws of 2016, Chapter 11 for tribal college dual credit	50,500	
10990	Adult Education Instructional Material Transfer from the Public Education Department (PED)	235,674	
21700	College Affordability Transfer from NM State Investment Council	2,000,000	
63700	Lottery Tuition Transfer for Liquor Excise Tax	17,928,969	
47900	Faculty Endowment Budget Reduction Sweep - Appropriation Laws of 2017, Chpt 1 Section 3 (24)		299,500
34400	Post-Secondary Educational Institutions Budget Reduction Sweep - Appropriation Laws of 2016, Chpt 4, Section 3 (43)		1,273,942
78200	Program Development Enhancement Budget Reduction Sweep - Appropriation Laws of 2017, Chpt 1 Section 3 (23)		139,900
23900	College Affordability Trust Fund Transfer from NM State Investment Council		2,000,000
23900	College Affordability Trust Fund Budget Reduction Sweep - Laws of 2016, Chpt 4 Section 3 (42)		5,000,000
	Total Other Financing Sources/Uses	\$ 20,215,143	\$ 8,906,266

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**9) Other Financing Sources/Uses and Transfers – continued**

Inter-Agency Transfers

State Agency	Agency Fund Number	Purpose	General Fund 91000	Financial Aid 21600	Lottery Tuition 63700	Capital Projects 89200	ABE Instructional Materials 10990	Total
Department of Finance and Administration Agency#34101	85300	State General Fund appropriation	\$ 11,570,974	\$ 23,403,000	\$ -	\$ -	\$ -	\$ 34,973,974
Public Education Department Agency#92400	63300	Tribal dual credit	50,500	-	-	-	-	50,500
Public Education Department Agency#92400	63300	Adult Basic Education instructional material	-	-	-	-	235,674	235,674
Department of Finance and Administration Agency#34100	85300	Special Appropriation for student financial aid program	500,000	-	-	-	-	500,000
Tax and Revenue Department Agency#33300	82800	Liquor excise tax	-	-	17,928,969	-	-	17,928,969
NM Lottery Authority Agency#81100	63700	Lottery proceeds for scholarships	-	-	37,835,947	-	-	37,835,947
State Board of Finance Agency#34103	89200	Bond proceeds appropriation	-	-	-	24,741,649	-	24,741,649
Total Agency Transfers			<u>\$ 12,121,474</u>	<u>\$ 23,403,000</u>	<u>\$ 55,764,916</u>	<u>\$ 24,741,649</u>	<u>\$ 235,674</u>	<u>\$ 116,266,713</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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**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](http://www.nmrhca.state.nm.us).

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

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**JUNE 30, 2017**

**11) Post-Employment Benefits — State Retiree Health Plan**

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, 2017, 2016, and 2015, were \$43,476, \$48,255, and \$48,257 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.

**13) Restatement of Beginning Fund Balance and Net Position**

During 2017, it was determined that the accounts payable balances was not correctly reconciled which resulted in FY 2015 accounts payable balances to not be properly reversed for the Capital Projects Fund (Fund 89200) and Lottery Tuition (Fund 63700).

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**13) Restatement of Beginning Fund Balance and Net Position - continued**

This resulted in the beginning balances to be understated in the prior year for the Capital Project and Lottery Tuition funds. The restatement for beginning fund balance is as follows:

	Fund 89200 Capital Projects FY11	Fund 63700 Lottery Tuition
Fund Balance at June 30, 2016, as previously reported	\$ (2,653,704)	\$ 5,419,059
Adjustment to correct accounts payable to relieve fiscal year 2015 balances	<u>3,674,537</u>	<u>3,465,713</u>
Fund Balance at June 30, 2016, as restated	<u>\$ 1,020,833</u>	<u>\$ 8,884,772</u>

Due to the correction of fund balance related to accounts payable for the Capital Projects and Lottery Tuition fund the balance of net position was also restated. The restatement of beginning net position is as follows:

	Governmental Activities
Net Position at June 30, 2016, as previously reported	\$ 21,314,443
Adjustment to correct accounts payable to relieve fiscal year 2015 balances	<u>7,140,250</u>
Net Position at June 30, 2016, as restated	<u>\$ 28,454,693</u>

**14) Subsequent Events**

Management has evaluated subsequent events through October 26, 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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**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.

*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



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Financial Aid Fund (SHARE Fund #21600) - continued

interest for each year that the student teaches as a faculty at a New Mexico four year institution (21-211, NMSA 1978). Per Section 21-211-8, 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.

(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.

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Financial Aid Fund (SHARE Fund #21600) - continued

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.

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

**STATE OF NEW MEXICO**  
**HIGHER EDUCATION DEPARTMENT**  
**MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS**  
**JUNE 30, 2017**

Financial Aid Fund (SHARE Fund #21600) - continued

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.

*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.

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**MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS**  
**JUNE 30, 2017**

Financial Aid Fund (SHARE Fund #21600) - continued

*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.

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#12150) – 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**  
**JUNE 30, 2017**

**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. 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.

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**HIGHER EDUCATION DEPARTMENT**  
**NONMAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS**  
**JUNE 30, 2017**

**Nonmajor Funds - continued**

Legislative Endowment Scholarship (SHARE Fund #67970) – 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 GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	ABE Instructional Materials-10990	College Affordability - 21700	College Goal Sunday Grant - 29200	Post-Secondary Educational Institution- 34400
<b>ASSETS</b>				
State General Fund Investment Pool	\$ 3	\$ 26,453	\$ 8,580	\$ 85,815
Accounts Receivable	-	-	-	52
Due from Other State Agencies	-	-	-	-
Due from Other Funds	-	-	-	-
Total Assets	<u>\$ 3</u>	<u>\$ 26,453</u>	<u>\$ 8,580</u>	<u>\$ 85,867</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Voucher Payable	\$ -	\$ 14,712	\$ -	\$ 7,785
Interest in STGFIP Overdraft	-	-	-	-
Payroll Benefits & Taxes Payable	-	-	-	-
Due to Other Funds	-	-	-	-
Due to federal government	-	-	-	-
Total Liabilities	<u>-</u>	<u>14,712</u>	<u>-</u>	<u>7,785</u>
Deferred Inflows	-	-	-	224,943
Fund balances:				
Restricted for:				
Special Purposes	3	11,741	8,580	-
Unassigned:				
Unassigned	-	-	-	(146,861)
Total Fund Balances	<u>3</u>	<u>11,741</u>	<u>8,580</u>	<u>(146,861)</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 3</u>	<u>\$ 26,453</u>	<u>\$ 8,580</u>	<u>\$ 85,867</u>

The accompanying notes are an integral part of these financials.

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2017**

Higher Education Performance - 54500	Capital Projects 64400	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 67970	ARRA - 89000	Total Governmental Funds
\$ 2,091	\$ -	\$ 577	\$ 729,792	\$ 17,500	\$ 870,811
-	-	-	-	-	52
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 2,091</u>	<u>\$ -</u>	<u>\$ 577</u>	<u>\$ 729,792</u>	<u>\$ 17,500</u>	<u>\$ 870,863</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,497
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	17,500	17,500
-	-	-	-	17,500	39,997
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	224,943
2,091	-	577	729,792	-	605,923
-	-	-	-	-	(146,861)
<u>2,091</u>	<u>-</u>	<u>577</u>	<u>729,792</u>	<u>-</u>	<u>605,923</u>
<u>\$ 2,091</u>	<u>\$ -</u>	<u>\$ 577</u>	<u>\$ 729,792</u>	<u>\$ 17,500</u>	<u>\$ 870,863</u>

The accompanying notes are an integral part of these financials.



**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	ABE Instructional Materials-10990	College Affordability - 21700	College Goal Sunday Grant - 29200	Post-Secondary Educational Institution- 34400
<b>REVENUES</b>				
Other Licenses and Permits	\$ -	\$ -	\$ -	\$ 324,789
Interest on Investments	-	-	45	-
Miscellaneous Revenue	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>45</u>	<u>324,789</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	87,344
Contractual Services	-	-	-	32,693
Other	235,674	1,999,963	-	19,695
Total Expenditures	<u>235,674</u>	<u>1,999,963</u>	<u>-</u>	<u>139,732</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(235,674)</u>	<u>(1,999,963)</u>	<u>45</u>	<u>185,057</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing source	235,674	2,000,000	-	(1,273,942)
Total Other Financing Sources and Uses	<u>235,674</u>	<u>2,000,000</u>	<u>-</u>	<u>(1,273,942)</u>
Net Change in Fund Balances	<u>-</u>	<u>37</u>	<u>45</u>	<u>(1,088,885)</u>
Fund Balances - beginning	<u>3</u>	<u>11,704</u>	<u>8,535</u>	<u>942,024</u>
Fund Balances - ending	<u>\$ 3</u>	<u>\$ 11,741</u>	<u>\$ 8,580</u>	<u>\$ (146,861)</u>

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Higher Education Performance - 54500	Capital Projects - 64400	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 67970	ARRA - 89000	Total-Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 324,789
10	-	710	-	-	765
-	-	-	-	-	-
<u>10</u>	<u>-</u>	<u>710</u>	<u>-</u>	<u>-</u>	<u>325,554</u>
-	-	-	-	-	87,344
-	-	-	-	-	32,693
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,255,332</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,375,369</u>
<u>10</u>	<u>-</u>	<u>710</u>	<u>-</u>	<u>-</u>	<u>(2,049,815)</u>
<u>-</u>	<u>-</u>	<u>(139,900)</u>	<u>-</u>	<u>-</u>	<u>821,832</u>
<u>-</u>	<u>-</u>	<u>(139,900)</u>	<u>-</u>	<u>-</u>	<u>821,832</u>
<u>10</u>	<u>-</u>	<u>(139,190)</u>	<u>-</u>	<u>-</u>	<u>(1,227,983)</u>
<u>2,081</u>	<u>-</u>	<u>139,767</u>	<u>729,792</u>	<u>-</u>	<u>1,833,906</u>
<u>\$ 2,091</u>	<u>\$ -</u>	<u>\$ 577</u>	<u>\$ 729,792</u>	<u>\$ -</u>	<u>\$ 605,923</u>

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF CAPITAL OUTLAY APPROPRIATIONS  
OTHER SUPPLEMENTARY INFORMATION  
FOR YEAR ENDED JUNE 30, 2017**

Capital Outlay Appropriation Name	Group	Approp. End Date	Amount Sold	Amount Drawn Prior	Amount Drawn Current	Balance Held by State Board of Finance June 30, 2017
Library Acquisitions Academic LIBR St	GOB13 12-1234	6/30/2016	3,000,000	-	-	3,000,000
MCC Infrastructure	GOB 13 12-1242	6/30/2016	1,000,000	(998,828)	-	1,172
SJC Infrastructure	GOB A12-1243	6/30/2016	1,200,000	(1,149,639)	(1,658)	48,703
LCC Voc Ed Complex	GOB 12-1244	6/30/2016	4,000,000	(4,000,000)	-	-
SFCC Roofing	GOB A12-1245	6/30/2016	1,000,000	(999,800)	-	200
SFCC Sign Language Interpret Prog.	STB A12-1528	6/30/2016	58,000	(57,967)	-	33
CNM Fiber Optic	STB A13-1880	6/30/2017	1,000,000	(1,000,000)	-	-
LCC Springer Renovate	STB A13-1881	6/30/2017	300,000	(89,248)	(209,546)	1,206
SFCC Health Sciences	STB A13-1884	6/30/2017	56,000	(55,943)	-	57
SFCC Sign Language Equip.	STB A13-1885	6/30/2017	48,750	(48,713)	-	37
SFCC Trades & Tech	STB A13-1886	6/30/2017	117,778	(112,490)	(4,110)	1,178
2014 Academic Library Resource Acquisitions	GOB A14-1291	6/30/2018	3,500,000	(2,134,221)	(1,197,300)	168,479
CNM Smith Brasher Hall Renovate	GOB A14-1296	6/30/2018	10,000,000	(41,095)	(9,753,214)	205,691
CCC Roof Replace	GOB A14-1297	6/30/2018	500,000	264,046	-	764,046
NMJC Health and Wellness Learning Ctr	GOB A14-1298	6/30/2018	5,000,000	-	(4,950,000)	50,000
LCC Satellite Campuses Ren-Santa Rosa/Springer	GOB A14-1299	6/30/2018	1,380,000	(20,179)	(590,234)	769,587
MCC Roof & Critical Infra Improve	GOB A14-1300	6/30/2018	650,000	(97,978)	(472,084)	79,938
SJC School of Science, Math, & Engineering Ren	GOB A14-1301	6/30/2018	4,000,000	(38,633)	(1,697,721)	2,263,646
SFCC Critical Infra Improve	GOB A14-1302	6/30/2018	2,000,000	(221,138)	(772,307)	1,006,555
MCC Roofing/HVAC Systems	STB A14-2112	6/30/2018	140,000	-	(140,000)	-
LCC Buildings Re-Roof	STB A14-2114	6/30/2018	40,000	-	(40,000)	-
SFCC Energy & Microgrids	STB A14-2115	6/30/2018	240,000	(12,780)	47,480	274,700
CNMCC Max Salazar HVAC & Mechanical Upgrades	STB A15-0958	6/30/2019	1,500,000	-	(1,500,000)	-
SIPI Fire Alarm Improve	STB A15-0959	6/30/2019	500,000	-	-	500,000
CCC Barracks Demolish & Abatement	STB A15-0960	6/30/2019	400,000	-	(219,118)	180,882
NMJC Allied Health Building	STB A15-0961	6/30/2019	705,000	(52,877)	(87,320)	564,803
NTU Health/Security/Safety Improve	STB A15-0962	6/30/2019	535,000	-	-	535,000
MCC Bldg. D Roof & Infra Improve	STB A15-0963	6/30/2019	1,300,000	-	(985,124)	314,876
SJC CDL Training Lot	STB A15-0964	6/30/2019	500,000	(9,792)	(4,812)	485,396
SJC Henderson Fine Arts Ctr. Fire Alarm System	STB A15-0965	6/30/2019	500,000	-	(499,918)	82
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 Improve	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	(6,431)	(754,720)	38,850
SFCC Automotive Facility	STB A15-0971	6/30/2019	90,000	(59,907)	(28,773)	(27,454)
SFCC Hydroponic/Aquaponic Greenhouses & ED Fclty	STB A15-0972	6/30/2019	240,000	-	(59,934)	180,066
SFCC Infrastructure Improve	STB A15-0973	6/30/2019	400,000	-	(360,245)	39,755
NMJC Allied Health Nursing Program Equip	STB A16-2589	6/30/2018	140,000	-	(140,000)	-
MCC Info Tech	STB A16-2591	6/30/2018	105,000	-	(96,935)	8,065
LCC Vehicles	STB A16-2592	6/30/2018	45,000	-	(44,287)	713
SFCC Plant Operations & Maintenance Improve	STB A16-2593	6/30/2020	50,000	-	(20,709)	29,291
SFCC Science on a Sphere Purchase	STB A16-2594	6/30/2020	75,000	-	(75,000)	-
SFCC Auto Equipment Purchase & Install	STB A16-2595	6/30/2018	245,000	-	(49,059)	195,941
			48,935,528	(10,943,612)	(24,741,649)	13,221,494

**STATE OF NEW MEXICO**  
**HIGHER EDUCATION DEPARTMENT**  
**SCHEDULE OF SPECIAL APPROPRIATIONS**  
**OTHER SUPPLEMENTARY INFORMATION**  
**FOR YEAR ENDED JUNE 30, 2017**

<u>Description</u>	<u>Authority</u>	<u>Appropriation Period</u>	<u>SHARE Fund</u>	<u>Total Appropriation</u>
<b>General Fund</b>				
Instruction and General Funding Formula Adjustments	Laws of 2016, 2nd Session, Chpt 11, Section 5	6/30/2017	91000	\$ 367,900
Total Special Appropriation				<u>\$ 367,900</u>

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
OTHER SUPPLEMENTARY INFORMATION  
FOR YEAR ENDED JUNE 30, 2017**

<b>Federal Grantor / Pass-through Grantor / Program Title / Fund Title / Contract Number</b>	<b>Pass-Through Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education</b>			
Direct Programs:			
Adult Education- Basic Grants to States	V002A120032	84.002	\$ 4,375,974
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S12005	84.334	5,022,373
No Child Left Behind FFY14	S367B130028	84.367	27,065
No Child Left Behind FFY15	S367B120028	84.367	321,043
Total U.S. Department of Education Direct			<u>9,746,455</u>
<b>U.S. Department of Justice</b>			
Direct Programs:			
John R. Justice Prosecutors and Defenders Incentive Act	2011-RJ-BX-0046	16.816	16,600
Total U.S. Department of Justice			<u>16,600</u>
			<u><b>\$ 9,763,055</b></u>

<b>Program Title</b>	<b>CFDA Number</b>	<b>Federal Amount Provided to Subrecipients</b>
Adult Education - Basic Grants to States	84.002	\$ 3,613,699
GEAR-UP	83.334	3,399,081
No Child Left Behind	84.367	318,564
Total provided to Subrecipients		<u><u>\$ 7,331,344</u></u>

**STATE OF NEW MEXICO**  
**HIGHER EDUCATION DEPARTMENT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**OTHER SUPPLEMENTARY INFORMATION**  
**FOR YEAR ENDED JUNE 30, 2017**

**1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of New Mexico Higher Education Department 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 2017 Catalog of Federal Domestic Assistance.

**5) Subrecipients**

Of the federal expenditures presented in the schedule, the Department provided federal awards to educational institutions in the amount of \$7,331,344. The Entities are listed on the following page:

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
OTHER SUPPLEMENTARY INFORMATION - (CONTINUED)  
JUNE 30, 2017**

**5) Subrecipients – continued**

<u>Subrecipients Name</u>	<u>Pass through Funds</u>
<b><u>Adult Education</u></b>	
Alamo Navajo School Board Inc.	\$ 48,643
Albuquerque GED	96,398
Catholic Charities	209,975
Central New Mexico Community College	384,134
Clovis Community College	86,856
Dine College	69,051
Eastern New Mexico University	268,710
La Plaza de Encuentro	44,454
Luna Community College	50,556
Mesalands Community College	48,555
New Mexico Corrections	253,987
New Mexico Junior College	93,694
New Mexico State University	577,705
Norther New Mexico College	78,352
Sage LLC	116,274
San Juan College	156,688
Santa Fe Community College	297,769
Southwestern Indian Polytechnic Institution	54,162
University of New Mexico	602,932
Western New Mexico University	74,804
Total Adult Education	\$ 3,613,699
<b><u>GEAR UP</u></b>	
Bernalillo Public Schools	\$ 472,842
Central Consolidated Schools #22	355,305
Grants/Cibola County Schools	330,344
Jemez Mountain School District No 53	177,165
Jemez Valley Public Schools	236,936
Los Lunas Schools	297,248
Mora Independent Schools	259,981
Pecos Independent School District	300,749
Penasco Independent School District	319,280
Santa Fe Public Schools	447,128
Walatowa High Charter School	202,103
Total GEAR UP	\$ 3,399,081

**STATE OF NEW MEXICO**  
**HIGHER EDUCATION DEPARTMENT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**OTHER SUPPLEMENTARY INFORMATION - (CONTINUED)**  
**JUNE 30, 2017**

5) **Subrecipients – continued**

<u>Subrecipients Name</u>	<u>Pass through Funds</u>
<b>No Child Left Behind</b>	
<i>FFY2014 Grant:</i>	
New Mexico State University	\$ 17,761
<i>FFY2015 Grant:</i>	
Eastern New Mexico University	75,614
New Mexico Highlands University	25,290
New Mexico Institute of Mining and Technology	77,831
New Mexico State University	103,739
Western New Mexico University	18,329
<b>Total No Child Left Behind</b>	<b>\$ 318,564</b>
<b>Subrecipients Total</b>	<b>\$ 7,331,344</b>





**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, and the budgetary comparisons for the general fund and major special revenue funds, of the State of New Mexico Higher Education Department (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 25, 2017.

**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 finding 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 item 2010-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a significant deficiency.

### **Compliance and Other Matters**

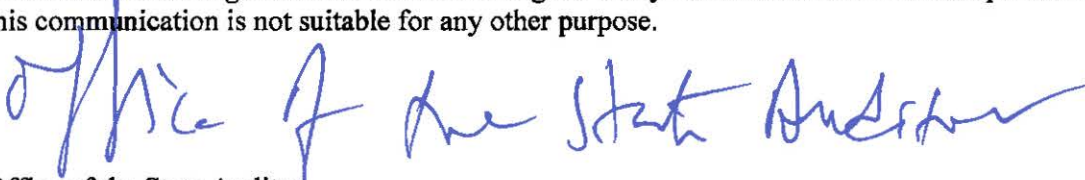
As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material 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 2015-002, 2016-003, 2016-005, 2016-006, 2016-008 and 2017-002.

### **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  
October 25, 2017



**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, 2017. 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.

### ***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, 2017.

### ***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 item 2017-002. 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.

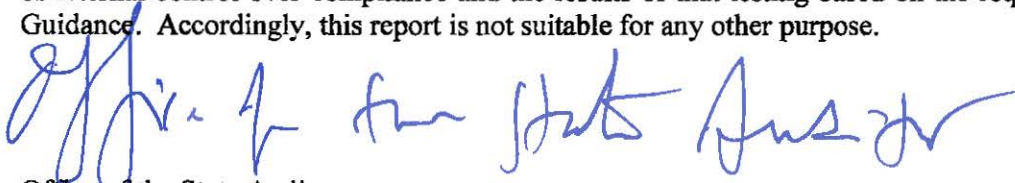
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 and therefore, material weaknesses or significant deficiencies may not exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was

not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

A handwritten signature in blue ink, appearing to read "John H. ... State Auditor". The signature is fluid and cursive, spanning across the width of the page.

Office of the State Auditor  
Santa Fe, New Mexico  
October 25, 2017

# NEW MEXICO HIGHER EDUCATION DEPARTMENT



SUSANA MARTINEZ  
GOVERNOR

DR. BARBARA DAMRON  
CABINET SECRETARY

## SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS JUNE 30, 2017

### PRIOR YEAR FINDINGS

#### Financial Statement Findings

- 2006-001 Reconciliation and Tracking of Loan-for-Service Program – Resolved
- 2010-001 Entity-Level Controls over Financial Reporting - Repeated and modified
- 2015-001 Loan Collection Process – Resolved
- 2015-002 Untimely Deposit of Cash – Repeated and Modified
- 2015-003 Budgetary Compliance – Resolved
- 2016-001 Restatement of Fund Balance – Resolved
- 2016-002 Reversions – Resolved
- 2016-003 Information Technology General Controls – Repeated and Modified
- 2016-004 Controls Over Payroll – Resolved
- 2016-005 Travel and Per Diem – Repeated and Modified
- 2016-006 Use of State Issued Gas Credit Cards – Repeated and Modified
- 2016-007 Capital Assets – Resolved
- 2016-008 Chief Procurement Officer’s Reporting Requirement – Repeated and Modified
- 2016-009 Payroll Documentation – Resolved
- 2016-010 Late Submission of Audit Report – Resolved
- 2016-011 Procurement Violation – Resolved
- 2016-012 Cost Principles – Resolved
- 2016-013 Late Data Collection Form - Resolved

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

1. Type of auditor's report issued	Unmodified
2. Internal Control over Financial Reporting	
a. Material Weakness Identified?	Yes
b. Significant Deficiencies not considered to be material weakness?	Yes
c. Noncompliance Material to the financial statements noted?	Yes

*Federal Programs:*

1. Internal Control over major programs:	
a. Material Weakness Identified?	No
b. Significant Deficiencies not considered to be material weakness?	Yes
2. Type of auditor's report issued on compliance for major program	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	Yes
4. Identification of Major Programs:	
<u>Program Name</u>	<u>CFDA Number</u>
GEAR-UP	84.334
5. The threshold for distinguishing Types A & B programs:	\$750,000
6. The Department was determined to be a low-risk auditee?	No

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**CURRENT YEAR FINDINGS**

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

**CONDITION**

Currently a decentralized system for processing financial transactions is in place instead of centralizing finance related items in the Administrative Service Division.

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

- Unavailable Revenue account balance was not complete at fiscal year-end 2017. An adjustment of \$77,811 was recorded to correct the account.
- A due to other fund and due from other fund accounts required an adjustment of \$60,398 to correct the balances.
- Accounts Payable account balances was not reconciled at fiscal year end 2017. Two adjustments in the amounts of \$3,465,713 and \$3,674,487 from fiscal year 2016 was recorded to correct the account for the Lottery Tuition and Capital Projects fund.
- We noted that the fund for Financial Aid (Fund) had prior year out of current year accounts payable. Per review of the additional documentation, checks for \$160,413 was deposited from a higher education institution representing cash refund for the New Mexico Student Incentive program. This caused the unadjusted trial balance to overstate accounts payable and expenditures by \$160,413. An adjustment was recorded to correct the accounts.

Due to timing of the completion of the fiscal year 2016 audit report, management's corrective action plan begins in fiscal year 2018. Management made progress in correcting the condition in fiscal year 2017. However, additional review of all accounts including accounts payable needs to be continued to be reconciled and reviewed.

**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.



**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**2010-001 - Continued**

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.

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 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. The Department continues to take steps to centralize functions back into the Administrative Services Department (ASD). All changes and improvements are being overseen by the Deputy Secretary. The Department will continue to evaluate and improve the internal control structure and address the staffing challenges that have long existed in ASD. The Department is in the process of hiring a CFO by the end of the calendar year and expects that the control structure and staff will be fully implemented and in place no later than July 1, 2018.

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**2015-002      UNTIMELY DEPOSIT OF CASH – CONTROLS OVER CASH RECEIPTS  
(OTHER NON COMPLIANCE) - REPEATED AND MODIFIED**

CONDITION

During our testwork of 50 cash receipts we noted the following:

- Nine receipts, totaling \$9,349, were not deposited timely by the next business day.

Management made significant progress in correcting the prior year finding. The condition listed in the 2016 audit report included items without supporting documentation, incorrect coding, lack of documentation of review and untimely deposits. Management has implemented a process that corrected many of the issues identified in the prior year. However, we noted deposits that were not in compliance with State statute.

CRITERIA

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

HED's process for cash receipts was not consistently followed to ensure compliance with State statute.

EFFECT

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.

RECOMMENDATION

HED should follow policies and procedures to ensure compliance with State statutes governing Public Monies.

MANAGEMENT RESPONSE

As of July 1, 2016 Management has implemented a new process which records a log of cash receipts, creates a deposit, provides a review process for the deposit and then makes the deposit within 24 hours. The Financial Manager is responsible for the upkeep and review of this process. This process was new for fiscal year 2017 and allowed the agency to make significant improvements in controls over cash. However,

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**2015-002 - Continued**

there were isolated instances in fiscal year 2017 in which cash was properly deposited but not within the required 24-hour period.

**2016-003      INFORMATION TECHNOLOGY GENERAL CONTROLS (OTHER  
NONCOMPLIANCE) - REPEATED AND MODIFIED**

CONDITION

During our review of internal controls over Information Technology, we noted that HED's written disaster recovery procedures have not been approved by the Department of Information Technology (DoIT) as of June 30, 2017.

Management made progress in correcting the prior year finding by creating a disaster recovery plan and submitting it to DoIT. The Department is waiting for DoIT to approve the plan.

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

Non-compliance with NMAC.

CAUSE

HED prepared and submitted a Disaster Recovery Plan to the DoIT in February 2017. HED has not received approval of the Disaster Recovery Plan as of June 30, 2017.

RECOMENDATION

HED's management should continue to work with DoIT to obtain final approval of the Disaster Recovery Plan.

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**2015-003 - Continued**

MANAGEMENT'S RESPONSE

Upon learning of this requirement through the fiscal year 2016 audit process, Management immediately began work to create a Disaster Recovery Plan for approval by DoIT. The plan was initially sent to DoIT in February 2017. To date the agency has not received a response from DoIT in spite of several follow up requests. Management continues to reach out to DoIT for a response. Even though the Disaster Recovery Plan has not been approved, the Department is adhering to the policies described in the plan. The Deputy Cabinet Secretary will be responsible for working with DOIT to ensure the plan will be approved.

**2016-005 TRAVEL AND PER DIEM (OTHER NONCOMPLIANCE) - REPEATED AND MODIFIED**

CONDITION

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

- One out of two employees with travel expenditures more than \$1,500 in the calendar year did not obtain authorization for reimbursement of more than \$1,500, singly or in the aggregate, in any one year. Total calendar year expenditures for the employee totaled \$2,935.

Due to timing and completion of fiscal year 2016 audit report, management has worked to communicate with staff regarding the \$1,500 rule and establishing a process to review SHARE reports on travel. However, we noted that travel expenditures above \$1,500 did not obtain approval.

CRITERIA

Section 10-8-5(I) NMSA 1978 states 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 to the governor, 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 a procedure to ensure compliance with State statute.

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**2016-005 - Continued**

RECOMMENDATION

HED should implement a procedure that ensures compliance with relevant statutes.

MANAGEMENT RESPONSE

Management has worked internally to communicate extensively with staff regarding the \$1,500 rule and has established a process by which SHARE reports on travel are produced monthly in order to monitor adherence with this rule. The Deputy Cabinet Secretary will be responsible for communicating with staff requirements \$1,500.

**2016-006      USE OF STATE ISSUED GAS CREDIT CARDS (OTHER NON-COMPLIANCE)  
REPEATED & MODIFIED**

CONDITION

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

- Three out of four fuel disbursements included the purchase of high grade fuel totaling \$414.27.

Due to the timing of the completion of the fiscal year 2016 audit report, management's corrective action plan begins in fiscal year 2018. Management did not make progress correcting the condition during fiscal year 2017.

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 unleaded gasoline.

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.

CAUSE

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

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**2016-006 - Continued**

RECOMMENDATION

HED should develop a system to effectively monitor the use of gas cards for compliance with State statutes. HED should remind employees of policies and procedures pertaining to gas cards.

MANAGEMENT RESPONSE

Management has conducted training on multiple occasions regarding proper use of gas cards. All employees have been properly notified that gas cards are not to be used for high grade fuel. The Deputy Cabinet Secretary is responsible for ensuring training is administered to staff.

**2016-008      CHIEF PROCUREMENT OFFICER'S REPORTING REQUIREMENT (OTHER  
NONCOMPLIANCE) - REPEATED AND MODIFIED**

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 fiscal year 2017 as required. HED has made improvements to designate an employee as the CPO as of June 30, 2017, however formal approval had not been received by the State Purchasing Division.

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 fiscal year 2017.

CAUSE

HED has not formally received approval of the designated employee as the CPO by New Mexico State Purchasing Division as of June 30, 2017.

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

**2016-008 - Continued**

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 RESPONSE

Our General Counsel is now the Certified Procurement Officer. Due to the availability of training courses provided, the individual was not able to be certified within fiscal year 2017. Currently, this individual has completed all of the necessary training and received the CPO certification from GSD in October 2017.

FEDERAL AWARD FINDING

**2017-001      PAYROLL CHARGES TO FEDERAL GRANTS (SIGNIFICANT DEFICIENCY)**

Federal Program: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)  
Funding Agency: US Department of Education  
CFDA Number: 84.334  
PR/Award: P334S120005-16  
Period: 7/23/2016-07/22/2017  
Questioned Costs: None

CONDITION

During our testwork on allowable costs, we noted that the Department did not obtain supervisory approval on a quarterly time certification timely. Approval by the supervisor occurred nine months after the certification of time was completed by the employee.

CRITERIA

Per 2 Code of Federal Regulations (Uniform Guidance) 200.430 (8) (i) Compensation – Personal Services, requires charges to Federal awards for salaries and wages be based on records that accurately reflect the work performed and be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Documentation should also comply with the established accounting policies and practices of the entity. In addition, per Uniform Guidance 200.302 Financial Management, the financial management system of the entity must provide written procedures for determining the allowability of costs and the terms and conditions of the Federal award.

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**2017-001-Continued**

CAUSE:

Management oversight and employee turnover within the grant division.

EFFECT:

Noncompliance with the Uniform Guidance.

RECOMMENDATION:

HED should develop written procedures for time and effort reporting for grant programs in accordance with Uniform Guidance.

MANAGEMENT'S RESPONSE:

Management has implemented a quarterly process for supervisor approval of time and effort forms. The time and effort reports will be reviewed by ASD personnel after the grant program supervisor's review.

**2017-002      PAYMENT VIOLATION (OTHER NONCOMPLIANCE)**

Federal Program: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)  
Funding Agency: US Department of Education  
CFDA Number: 84.334S  
PR/Award: P334SI20005-15  
Period: 7/23/2016 – 7/22/2017  
Questioned Costs: None

CONDITION

During our compliance testwork for federal awards, we noted an invoice for services rendered in July 2015 was paid to a vendor 17 months later on December 2, 2016. The invoice totaled \$4,500 of federal expenditures.

CRITERIA

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



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**2017-002-Continued**

B. Unless otherwise agreed upon by the parties or unless otherwise specified in the invitation for bid, request for proposals or other solicitation, within fifteen days from the date the central purchasing office or using agency receives written notice from the contractor that payment is requested for services or construction completed or items of tangible personal property delivered on site and received, the central purchasing office or using agency shall issue a written certification of complete or partial acceptance or rejection of the services, construction or items of tangible personal property.

C. Except as provided in Subsection D of this section, upon certification by the central purchasing office or the using agency that the services, construction or items of tangible personal property have been received and accepted, payment shall be tendered to the contractor within thirty days of the date of certification.

Uniform Guidance 200.305 Payments, states that reimbursement is the preferred method of payment and requires the Federal awarding agency or pass-through entity to make payment within 30 calendar days after receipt of the billing.

CAUSE

The invoice was not paid timely due to vacancies in the grant accounting coordinator position.

EFFECT

HED obtained services and did not render payment to the vendor and did not draw down federal reimbursement timely. Noncompliance with State statute.

RECOMMENDATION

HED should review purchase orders to ensure vendors are paid timely and reimbursements from the federal awarding agency are completed in accordance with State statutes and Uniform Guidance.

MANAGEMENT RESPONSE

Management agrees with the finding. In 2016 there was a key vacancy in the grant accounting coordinator position for GEAR Up. While this position was vacant, an invoice was not paid until it was discovered several months later. Management took steps to centralize this function by moving this vacant position to reside in ASD, and filled the position. Management will review payments to vendors outstanding greater than 60 days and research the reasons why they remain unpaid. This process will be performed using the SHARE AP module's open payable report. The Deputy Cabinet Secretary is responsible for ensuring that SHARE AP Open Payable Report will be reviewed for outstanding payments to vendors.

# NEW MEXICO HIGHER EDUCATION DEPARTMENT



SUSANA MARTINEZ  
GOVERNOR

DR. BARBARA DAMRON  
CABINET SECRETARY

## CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2017

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
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	June 30, 2018
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. This process was implemented throughout fiscal year 2017, and only isolated instances of receipts not being deposited in 24 hours were found.	Deputy Cabinet Secretary	Completed
2016-003 Information Technology General Controls	Management has created a disaster recovery plan which has already been submitted to NM DoIT for approval. Even though the Disaster Recovery Plan has not been approved by DoIT, the Department is adhering to the policies described in the plan.	Deputy Cabinet Secretary	June 30, 2018
2016-005 Travel And Per Diem	Management has worked internally to communicate with staff regarding the \$1,500 rule and has established a process by which SHARE reports on travel are produced monthly in order to monitor adherence with this rule.	Deputy Cabinet Secretary	Completed

NEW MEXICO HIGHER EDUCATION DEPARTMENT



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**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>Audit Finding</b>	<b>Management's Corrective Action Plan</b>	<b>Employee Person Responsible</b>	<b>Timeline and Estimated Completion Date</b>
2016-006 Use Of State Issued Gas Credit Cards	Management has communicated extensively with staff regarding appropriate gas card use and staff have been trained to no longer use any premium fuel in state vehicles.	Deputy Cabinet Secretary	Completed
2016-008 Chief Procurement Officer's Reporting Requirement	General Counsel is now the Certified Procurement Officer. Due to the availability of training courses provided, the individual was not able to be certified during fiscal year 2017. Currently, this individual has completed all of the necessary training and received the COP certification from GSD in October 2017.	Deputy Cabinet Secretary	Completed

**STATE OF NEW MEXICO  
HIGHER EDUCATION DEPARTMENT  
EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2017**

**EXIT CONFERENCE**

An exit conference was conducted on October 25, 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
Patrick Lucero	Financial Coordinator/Supervisor

**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
Lynette Kennard, CPA, CGFM	Audit Director
Jessica Lucero	Audit Supervisor
Antonio Baca, CPA	Audit Senior

**PREPARATION OF FINANCIAL STATEMENTS**

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.