



State of New Mexico
Higher Education Department

Financial Statements

and

Independent Auditor's Report

June 30, 2018



**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
TABLE OF CONTENTS
JUNE 30, 2018**

	<u>Page</u>
Table of Contents	i-iii
Official Roster	iv
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis (Unaudited)	4-12
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Governmental Funds Financial Statements	
Balance Sheet — Governmental Funds	15-16
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	18-19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual—Major Governmental Funds— General Fund (Fund 91000)	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual— Major Governmental Funds— Financial Aid Programs (Fund 21600)	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual— Major Governmental Funds— Lottery Tuition Fund (Fund 63700)	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual— Major Governmental Funds— Adult Education (Fund 68910)	24

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
TABLE OF CONTENTS
JUNE 30, 2018**

	<u>Page</u>
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual— Major Governmental Funds— GEAR UP (Fund 68280)	25
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual— Major Governmental Funds— Capital project FY2011 (Fund 89200)	26
Statement of Fiduciary Net Position	27
Statement of Changes in Fiduciary Net Position	28
Notes to the Financial Statements	29-51
Major Fund and Department Governmental Descriptions	52-56
Nonmajor Fund and Department Governmental Descriptions	57-58
Combining Balance Sheet — Nonmajor Funds	59-60
Combining Statement of Revenues, Expenditures and Changes in Fund Balances — Nonmajor Funds	61-62
Other Supplementary Information	
Schedule of Capital Appropriations	63
Schedule of Special Appropriations	64
Schedule of Expenditures of Federal Awards	65
Notes to Schedule of Expenditures of Federal Awards	66-68
Compliance Section	
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 <i>Government Auditing Standards</i>	69-70

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
TABLE OF CONTENTS
JUNE 30, 2018**

	<u>Page</u>
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required Uniform Guidance	71-72
Summary Schedule of Prior Audit Findings	73
Schedule of Findings and Questioned Costs	74-86
Corrective Action Plan	87-88
Exit Conference	89

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OFFICAL ROSTER
JUNE 30, 2018**

<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.	Adult Education 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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards, issued by the Comptroller General of the United States*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, 2018, 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, 2018, 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 “Scholars edge” 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 nonmajor 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, and 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 30, 2018, 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 30, 2018

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018. 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 fiscal year 2018, 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:

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

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.

To promote the above tribal initiatives, the agency contracted with a tribal liaison specialist.

The Department also hired a Chief Financial Officer, made significant moves to fully staff its Administrative Services Division, hired a Private Post-Secondary Institution Division Director, requested and was approved for the creation of three new positions and made other efforts to fill vacant positions.

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, 2018. 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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

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 2018 fiscal year.

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

Fund Financial Statements: The fund financial statements that follow the department-wide financial statements report on the financial position and changes in financial position of the individual funds used by the Department. Funds are separate accounting entities used in government accounting to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those financial resources. The Department uses two types of funds to account for its financial activities: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for the finances of the governmental activities reported in the department-wide financial statements. The Department uses two types of governmental funds: a general fund to account for activities not required to be accounted for in other funds, and special revenue funds to account for collection and expenditure of earmarked and restricted fund resources.

Fiduciary Funds

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

statements reflect such transactions as allocations over the time of use in the form of depreciation. A reconciliation of differences between department-wide and fund financial statements is provided in separate schedules that detail the differences in accounting treatment.

Budgetary Comparisons: The budgetary comparison statements furnish a budget-to-actual comparison for all governmental funds to report compliance with the approved budget. The budget amounts reported are those in the original budget and in the amended budget, which reflects all legal adjustments made to the budget since the start of the fiscal year. Actual expenditures are stated on the same basis as the budget amounts.

Notes to the Financial Statements: The notes to the financial statements provide detailed information to support and explain key financial information presented in the department-wide and fund financial statements. The notes provide information on the activities of the Department, on the basis of accounting used, and on accounting policies reflected in the financial statements to clarify key financial information. They are integral to understanding the financial statements.

Supplementary Information: Supplementary information is provided to report the combining financial statements of 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 Adult Education Fund (SHARE Fund 68190) accounts for federal funds meant for enhancing learning basic skills, obtaining a high school equivalency, enrolment in post-secondary education programs and learning English as a second language for adults 16 years of age and older. These funds were previously accounted for in fund 12150, along with other federal programs like Gear Up, No Child Left Behind and the John R. Justice federal programs-a move meant to simplify the tracking and monitoring of the Adult Education federal program funds.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

- ◆ The Federal Gear Up Fund (SHARE Fund 68280) accounts for federal funds allocated to the agency to increase in multiple school districts, the number of students going to post-secondary schools, enhance the college-going culture in those district communities and to improve access and opportunities within state colleges and universities for all students. Like the Adult Education Federal program, this fund became operational in FY18 and had its activities tracked and monitored in fund 12150 in prior years.

Net Position

The Department's net position at June 30, 2018 increased by 10.1 million in comparison to 2017. Total assets increased \$11.2 million mainly due to the decreases in cash from lottery, financial aid and capital projects Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2018.

**Table A-1 Detail of Department Condensed Net Position
as of June 30, 2018 and 2017 (thousands)**

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Percentage of Change</u>
Assets				
Current assets	\$ 28,949	\$ 19,065	\$ 9,884	51.84%
Noncurrent assets	14,659	13,482	1,117	8.73%
Capital assets, net of accumulated depreciation	54	14	40	285.71%
Total assets	<u>43,662</u>	<u>32,561</u>	<u>11,101</u>	<u>34.09%</u>
Liabilities				
Current liabilities	7,852	6,686	1,166	17.44%
Compensated absences	147	104	43	41.35%
Total liabilities	<u>7,999</u>	<u>6,790</u>	<u>1,209</u>	<u>17.81%</u>
Deferred inflows	-	225	(225)	-100.0%
Net Position				
Investments in capital assets, net of debt	54	14	40	285.71%
Restricted	35,609	25,532	10,077	39.47%
Unrestricted	-	-	-	0.0%
Total net position	<u>\$ 35,663</u>	<u>\$ 25,546</u>	<u>\$ 10,117</u>	<u>39.60%</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Changes in Net Position

The Department experienced a change in net position at June 30, 2018 of \$10.1 million in comparison to 2017. Total program revenues decreased by .1%. Lottery revenue increased by \$2.5 million or 6.6%. Adding to the change in net position was a decrease education expenses of \$30.5 million or -23%. Table A-2 summarizes the Department's changes in net position for the fiscal year ended June 30, 2018.

**Table A-2 Statement of Activities
For the year ended June 30, 2018 and 2017 (thousands)**

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Percentage of Change</u>
Program Revenues				
Program revenues	\$ 10,206	\$ 10,219	\$ (13)	-0.13%
Total program revenues	10,206	10,219	(13)	-0.13%
General Revenues (Expenses)				
State appropriations	38,526	35,474	3,052	8.60%
Other financing sources	1,665	18,502	(16,837)	-91.00%
Education expenses	(99,689)	(130,202)	30,513	-23.44%
Reversions	(150)	(193)	43	-22.28%
Proceeds of state general obligation and severance tax bonds	17,618	24,742	(7,124)	-28.79%
Proceeds from lottery	40,345	37,836	2,509	6.63%
Miscellaneous	189	28	161	575.00%
Total general revenues (expenses)	(1,496)	(13,813)	12,317	-89.17%
Investment earnings	1,876	686	1,190	173.47%
Total other investment income (expenses)	1,876	686	1,190	173.47%
Change in net position	10,586	(2,908)	13,494	464.03%
Net position, beginning	25,547	21,315	4,232	19.85%
Restated	(472)	7,140	(7,612)	
Net position, beginning of year, restated	25,075	28,455	(3,380)	-11.88%
Net position, ending	\$ 35,661	\$ 25,547	\$ 10,114	39.59%

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the Department. Amendments to the appropriated budget require approval by the Budget Division of the Department of Finance & Administration, with review by the Legislative Finance Committee.

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

The Department budgets at the category level by appropriation level. For the year ending June 30, 2018. The Department's budget for operations was \$87.251 million funded through legislation. The Department also received special appropriations of \$30 thousand for Adult Education and four million for the lottery tuition scholarship programs.

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. The Department did not receive tobacco excise tax funding in fiscal year 2018 as it had in the past. Education is one of the top discussion topics in today's political and economic environment.

Economic Factors Affecting New Mexico's Fiscal Year 2019 Budget

New Mexico utilizes a consensus revenue estimating group (CREG) comprised of legislative and executive economists to forecast General Fund revenue so that the Executive and Legislature work with the same revenue forecast in preparing their respective General Fund operating budget recommendations. The CREG bases its State General Fund revenue forecast on forecasts of the U.S. economy from IHS Global Insight and Moody's Analytics in combination with forecasts of the New Mexico economy prepared by the University of New Mexico's Bureau of Business and Economic Research and Moody's Analytics. Economic inputs are supplemented with information provided by state agencies, the Congressional Budget Office, and other national data sources. Historical information on the value and volume of crude oil and natural gas produced in the state is derived from the State's Oil and Natural Gas Administration and Revenue Database (ONGARD) reporting system, and product price forecasts are derived from the national economic forecasting services and other sources.

Trends in the U.S. Economy

The U.S. economy continued to grow in fiscal year 2018. The national economy, as measured by real gross domestic, grew by 2.6 percent in fiscal year 2018. Total employment levels averaged 2.2 million, or 1.5 percent, above fiscal year 2017. U.S. average hourly wages grew by 2.6 percent, exceeding inflation of 2.2 percent to increase worker purchasing power.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

U.S. economic growth is expected to accelerate in fiscal year 2019, with projected GDP growth of 3.1 percent. The Federal Reserve is expected to raise short-term interest rates further through the fiscal year in response to ongoing US economic strength. Inflation is expected to reach 2.4% in fiscal year 2019.

New Mexico Economy

The core New Mexico economy grew moderately in fiscal year 2018 and the energy sector rebounded sharply. Reflective of the core New Mexico economic growth, state wages and salaries grew by 3.4 percent and total personal income in the state grew by 2.9 percent. During fiscal year 2018, New Mexico employment growth averaged 0.9 percent, adding 7,800 jobs. The, Private Education and Health Services had been a driver of growth in the prior few years but only grew by 300 additional jobs. The Mining Sector reversed some of the declines from the prior two years and gained 1,200 jobs from fiscal year 2017. Sectors driving growth in fiscal year 2018 were the Construction Sector, the Professional and Business Services Sector, and the Leisure and Hospitality sector increasing employment by 3,400 jobs, 2,600 jobs, and 1,800 jobs respectively.

Natural gas prices remained stable, but oil and prices increased further in fiscal year 2018, with an even greater increase drilling activity and the largest growth in oil production experienced in modern New Mexico history. Average New Mexico prices in fiscal year 2018 for crude oil and natural gas were \$54.40 per barrel and \$3.25 per thousand cubic feet, respectively. New Mexico's oil production of 200 million barrels in fiscal year 2018 reached record levels, making New Mexico the third largest producing state for oil, as well as the ninth largest for natural gas.

General Fund Revenue and Reserve Outlook

According to the August 2018 consensus revenue estimate, fiscal year 2018 recurring revenue is expected to have grown by 14.6 percent to over \$6.7 billion, while year-end financial reserves are estimated to be 19.2 percent of recurring appropriations. Dramatic growth in oil and natural gas-related revenues (both industry direct severance and gross receipts taxes) in fiscal year 2018 added to growth in personal and corporate income taxes and earnings increased on state corpus balances.

Fiscal year 2019 recurring revenues are estimated to be 8.0 percent higher than fiscal year 2018, at around \$7.3 billion. Oil and natural gas- related revenues are projected to be even higher than fiscal year 2018 levels as oil prices are expected to increase slightly and volumes to grow significantly. New Mexico oil prices are projected to average \$56.00 per barrel, while New Mexico natural gas prices are expected to average \$3.10 per thousand cubic feet. Oil volumes are projected to increase by 21 percent and natural gas volumes are estimated to increase by 6 percent.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Oil and natural gas related growth, including severance, federal mineral leasing bonus and royalty payments and gross receipts tax revenue growth associated with oil exploration, is expected to be the largest driver of General Fund revenue growth in fiscal year 2019. Non-energy related growth in gross receipts tax is also expected as the Rio Grande corridor is also expected to continue to see moderate growth, and food and medical hold harmless distributions to local governments continue to be phased out. Distributions from the Permanent Funds are also expected to contribute to growth, increasing general fund revenue by an estimated \$88 million in fiscal year 2019 due to a higher average 5-year market value driven by fund growth. In addition to economic base growth, New Mexico's personal income tax revenue is expected to be increased by \$54 million due to changes in the Federal Tax Cuts and Jobs Act. Fiscal year 2019 ending reserves are projected to be \$2,164 million or 34.2 percent of recurring appropriations if no additional FY 2019 supplemental or special appropriations are made during the 2019 legislative session.

Contact Information

New Mexico Higher Education Department 2044 Galisteo St. Suite 4

Santa Fe, NM 87505-2100 Phone: (505) 476-8400

www.hed.state.nm.us

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
Assets	
Current assets	
Investment in State General Fund Investment Pool	\$ 23,940,136
Due from federal government	1,976,329
Due from State of New Mexico Component Unit	3,032,577
Due from Other State Agencies	248
Total current assets	28,949,290
Noncurrent assets	
Loans and interest receivable, net of allowance for doubtful accounts	14,659,267
Capital assets, net	53,895
Total noncurrent assets	14,713,162
Total assets	\$ 43,662,452
Liabilities	
Current liabilities	
Accounts payable	\$ 7,540,168
Accrued salaries and benefits payable	131,896
Due to federal government	128,213
Due to beneficiaries	35,380
Compensated absences due within one year	147,133
Other liabilities	16,807
Total current liabilities	7,999,597
Net Position	
Net investment in capital assets	53,895
Restricted	35,608,960
Total net position	35,662,855
Total liabilities, deferred inflows, and net position	\$ 43,662,452

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, 2018**

	Program Revenues			Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
Functions/Programs				
Governmental Activities				
General government	\$ 11,703,993	\$ -	\$ -	\$ (11,703,993)
Depreciation	6,924	-	-	(6,924)
Program Activities				
General government				
Adult education	4,249,794	-	4,175,904	(73,890)
GEAR UP	5,362,006	-	5,362,006	-
No child left behind	402,189	-	402,189	-
Financial aid programs	23,272,419	-	-	(23,272,419)
Lottery scholarships	36,816,673	-	-	(36,816,673)
Capital projects flowthrough	17,675,826	-	-	(17,675,826)
Other funds	199,328	266,038	-	66,710
Total governmental activities	\$ 99,689,152	\$ 266,038	\$ 9,940,099	(89,483,015)
General Revenues (Expenses)				
State General Fund Appropriations				38,526,200
Bond proceeds				17,618,461
Lottery proceeds				40,345,357
Other financing sources				1,639,482
Other services - Interagency				25,405
Reversion to State General Fund (FY 2018)				(149,813)
Miscellaneous revenue				189,208
Interest on loans				1,809,209
Investment earnings				66,726
Total general revenues (expenses)				100,070,235
Change in net position				10,587,220
Net position, beginning of year				25,547,235
Restated (Note 13)				(471,600)
Net position, beginning of year, as restated				25,075,635
Net position, end of year				\$ 35,662,855

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Operating Fund - 91000	Financial Aid - 21600	Lottery Tuition - 63700
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
State General Fund Investment Pool (SGFIP)	\$ 681,809	\$ 6,029,666	\$ 11,435,039
Federal grants receivable	-	-	-
Due from State component unit	-	-	3,032,577
Due from other State agencies	-	-	5
Total Current Assets	<u>681,809</u>	<u>6,029,666</u>	<u>14,467,621</u>
Non-current Assets:			
Loans and interest receivable, net of allowance for doubtful Accounts	-	14,659,267	-
Total Assets	<u>\$ 681,809</u>	<u>\$ 20,688,933</u>	<u>\$ 14,467,621</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Voucher payable	\$ 562,730	\$ 252,215	\$ 27,635
Interest in SGFIP overdraft	-	-	-
Payroll benefits & taxes payable	88,704	-	-
Due to federal government	-	-	-
Due to beneficiaries	375	-	-
Other liabilities	-	16,017	-
Total Liabilities	<u>651,809</u>	<u>268,232</u>	<u>27,635</u>
Fund Balances:			
Nonspendable:			
Non-Current: Loans receivable	-	14,659,267	-
Restricted:			
Special Purposes	30,000	5,761,434	14,439,986
Unassigned:			
Unassigned	-	-	-
Total Fund Balances	<u>30,000</u>	<u>20,420,701</u>	<u>14,439,986</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 681,809</u>	<u>\$ 20,688,933</u>	<u>\$ 14,467,621</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, 2018**

Adult Education - 68190	GEAR UP - 68280	Capital Projects FY11 -89200	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 5,307,592	\$ 896,239	\$ 24,350,345
590,715	1,072,487	-	313,127	1,976,329
-	-	-	-	3,032,577
-	-	243	-	248
<u>590,715</u>	<u>1,072,487</u>	<u>5,307,835</u>	<u>1,209,366</u>	<u>29,359,499</u>
-	-	-	-	14,659,267
<u>\$ 590,715</u>	<u>\$ 1,072,487</u>	<u>\$ 5,307,835</u>	<u>\$ 1,209,366</u>	<u>\$ 44,018,766</u>
\$ 520,343	856,487	\$ 5,272,728	\$ 48,030	\$ 7,540,168
57,877	61,418	-	290,914	410,209
12,236	26,766	-	4,190	131,896
397	127,816	-	-	128,213
-	-	35,005	-	35,380
-	-	-	790	16,807
<u>590,853</u>	<u>1,072,487</u>	<u>5,307,733</u>	<u>343,924</u>	<u>8,262,673</u>
-	-	-	-	14,659,267
-	-	102	890,442	21,121,964
(138)	-	-	(25,000)	(25,138)
<u>(138)</u>	<u>-</u>	<u>102</u>	<u>865,442</u>	<u>35,756,093</u>
<u>\$ 590,715</u>	<u>\$ 1,072,487</u>	<u>\$ 5,307,835</u>	<u>\$ 1,209,366</u>	<u>\$ 44,018,766</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, 2018**

Total fund balance, governmental funds \$ 35,756,093

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

Governmental capital assets	83,383	
Accumulated depreciation	(29,488)	
		53,895

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		(147,133)
----------------------	--	-----------

Net position of governmental activities in the statement of net position		\$ 35,662,855
---------------------------------------------------------------------------------	--	---------------

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, 2018**

	General Operating Fund - 91000	Financial Aid - 21600	Lottery Tuition - 63700
REVENUES			
Federal grants	\$ -	\$ -	\$ -
Other licenses and permits	-	-	-
Interest on investments	-	-	66,622
Interest on loans	-	1,809,209	-
Miscellaneous revenue	28,354	116,010	17,259
Total Revenues	<u>28,354</u>	<u>1,925,219</u>	<u>83,881</u>
EXPENDITURES			
Current:			
Personnel services & employee benefits	2,190,509	-	-
Contractual services	812,006	-	-
Other	8,657,906	21,872,416	36,816,673
Capital outlay	46,525	-	-
Total Expenditures	<u>11,706,946</u>	<u>21,872,416</u>	<u>36,816,673</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,678,592)</u>	<u>(19,947,197)</u>	<u>(36,732,792)</u>
OTHER FINANCING SOURCES (USES)			
General fund appropriation	11,783,000	22,743,200	4,000,000
Bond proceeds appropriations	-	-	-
Lottery proceeds	-	-	40,345,357
Other financing source	50,000	-	-
Other services - Interagency	25,405	-	-
Reversions to State General Fund	(149,813)	-	-
Total Other Financing Sources and Uses	<u>11,708,592</u>	<u>22,743,200</u>	<u>44,345,357</u>
Net Change in Fund Balances	<u>30,000</u>	<u>2,796,003</u>	<u>7,612,565</u>
Fund Balance - beginning	-	17,624,698	6,827,421
Restated (Note 13)	-	-	-
Fund Balance, beginning of year, as restated	-	17,624,698	6,827,421
Fund Balances - ending	<u>\$ 30,000</u>	<u>\$ 20,420,701</u>	<u>\$ 14,439,986</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, 2018**

Adult Education - 68190	GEAR UP - 68280	Capital Projects FY11 -89200	Other Governmental Funds	Total Governmental Funds
4,249,656	5,362,006	\$ -	\$ 328,437	\$ 9,940,099
-	-	-	266,038	266,038
-	-	-	104	66,726
-	-	-	-	1,809,209
-	-	-	27,585	189,208
<u>4,249,656</u>	<u>5,362,006</u>	<u>-</u>	<u>622,164</u>	<u>12,271,280</u>
273,045	747,548	-	47,374	3,258,476
207,432	598,977	-	36,973	1,655,388
3,769,317	4,015,481	17,675,826	1,917,171	94,724,790
-	-	-	-	46,525
<u>4,249,794</u>	<u>5,362,006</u>	<u>17,675,826</u>	<u>2,001,518</u>	<u>99,685,179</u>
<u>(138)</u>	<u>-</u>	<u>(17,675,826)</u>	<u>(1,379,354)</u>	<u>(87,413,899)</u>
-	-	-	-	38,526,200
-	-	17,618,461	-	17,618,461
-	-	-	-	40,345,357
-	-	-	1,589,482	1,639,482
-	-	-	-	25,405
-	-	-	-	(149,813)
<u>-</u>	<u>-</u>	<u>17,618,461</u>	<u>1,589,482</u>	<u>98,005,092</u>
<u>(138)</u>	<u>-</u>	<u>(57,365)</u>	<u>210,128</u>	<u>10,591,193</u>
-	-	529,067	655,314	25,636,500
-	-	(471,600)	-	(471,600)
-	-	57,467	655,314	25,164,900
<u>\$ (138)</u>	<u>\$ -</u>	<u>\$ 102</u>	<u>\$ 865,442</u>	<u>\$ 35,756,093</u>

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, 2018**

Net change in fund balances - total governmental funds	\$	10,591,193
---------------------------------------------------------------	----	------------

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlay		46,525
Depreciation expense		(6,924)
Change in compensated absences		(43,574)

Change in Net Position	\$	10,587,220
-------------------------------	-----------	-------------------

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 (P505)
FOR THE YEAR ENDED June 30, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	28,354	28,354
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>28,354</u>	<u>28,354</u>
EXPENDITURES				
Personnel Services & Employee Benefits	2,628,100	2,228,100	2,190,509	37,591
Contractual Services	1,365,200	915,200	812,006	103,194
Other	8,353,000	8,728,405	8,704,431	23,974
Total Expenditures	<u>12,346,300</u>	<u>11,871,705</u>	<u>11,706,946</u>	<u>164,759</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(12,346,300)</u>	<u>(11,871,705)</u>	<u>(11,678,592)</u>	<u>193,113</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	12,346,300	11,796,300	11,753,000	(43,300)
Special Appropriation	30,000	30,000	30,000	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	50,000	50,000	-
Operating Transfers In	-	25,405	25,405	-
Reversions to State General Fund	-	-	(149,813)	(149,813)
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>12,376,300</u>	<u>11,901,705</u>	<u>11,708,592</u>	<u>(193,113)</u>
Net Change in Fund Balance	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</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 (P506)
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ 37,700	\$ 37,700	\$ -	\$ (37,700)
Other Licenses and Permits	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	100,323	100,323
Miscellaneous Revenue	-	-	116,010	116,010
Other Fees	-	-	-	-
Total Revenues	<u>37,700</u>	<u>37,700</u>	<u>216,333</u>	<u>178,633</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	22,230,900	22,780,900	21,483,735	1,297,165
Total Expenditures	<u>22,230,900</u>	<u>22,780,900</u>	<u>21,483,735</u>	<u>1,297,165</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(22,193,200)</u>	<u>(22,743,200)</u>	<u>(21,267,402)</u>	<u>1,475,798</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	22,193,200	22,743,200	22,743,200	-
Bond Proceeds Appropriations	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>22,193,200</u>	<u>22,743,200</u>	<u>22,743,200</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,475,798</u>	
Reconciliation to change in fund balance - GAAP Basis:				
Total interest on loans			1,708,886	
Total miscellaneous expenditures			(388,679)	
Net change in fund balance - GAAP basis			<u>\$ 2,796,005</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 (P506)
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	66,622	66,622
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	17,260	17,260
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>83,882</u>	<u>83,882</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	46,000,000	46,000,000	36,816,674	9,183,326
Total Expenditures	<u>46,000,000</u>	<u>46,000,000</u>	<u>36,816,674</u>	<u>9,183,326</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(46,000,000)</u>	<u>(46,000,000)</u>	<u>(36,732,792)</u>	<u>9,267,208</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	4,000,000	4,000,000	4,000,000	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	42,000,000	42,000,000	40,345,357	(1,654,643)
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>46,000,000</u>	<u>46,000,000</u>	<u>44,345,357</u>	<u>(1,654,643)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,612,565</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
ADULT EDUCATION - 68910 (P505)
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ 4,300,000	\$ 5,181,115	4,249,656	\$ (931,459)
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>4,300,000</u>	<u>5,181,115</u>	<u>4,249,656</u>	<u>(931,459)</u>
EXPENDITURES				
Personnel Services & Employee Benefits	206,000	337,428	273,045	64,383
Contractual Services	349,000	368,455	207,432	161,023
Other	3,745,000	4,475,232	3,769,317	705,915
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>4,300,000</u>	<u>5,181,115</u>	<u>4,249,794</u>	<u>931,321</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(138)</u>	<u>(138)</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance			<u>\$ (138)</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
GEAR UP - 68280 (P505)
FOR YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ 4,739,800	\$ 5,861,806	5,362,006	\$ (499,800)
Other Licenses and Permits	-	-	-	-
Other Gifts and Grants	-	-	-	-
Interest on Investments	-	-	-	-
Interest on Loans	-	-	-	-
Miscellaneous Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>4,739,800</u>	<u>5,861,806</u>	<u>5,362,006</u>	<u>(499,800)</u>
EXPENDITURES				
Personnel Services & Employee Benefits	763,800	813,800	747,548	66,252
Contractual Services	450,300	700,300	598,977	101,323
Other	3,525,700	4,347,706	4,015,481	332,225
Education	-	-	-	-
Operating Costs	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>4,739,800</u>	<u>5,861,806</u>	<u>5,362,006</u>	<u>499,800</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing uses	-	-	-	-
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>	

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, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Severance tax bond appropriations	\$ 2,210,945	\$ 2,210,945	\$2,210,945	\$ -
General obligation bond appropriations	15,521,182	15,521,182	15,407,516	(113,666)
Total budgeted revenues	<u>17,732,127</u>	<u>17,732,127</u>	<u>17,618,461</u>	<u>(113,666)</u>
EXPENDITURES				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	34,900,000	34,900,000	17,675,826	17,224,174
Total budgeted expenditures	<u>34,900,000</u>	<u>34,900,000</u>	<u>17,675,826</u>	<u>17,224,174</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(17,167,873)</u>	<u>(17,167,873)</u>	<u>(57,365)</u>	<u>17,110,508</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	-	-	-	-
Bond Proceeds Appropriations	-	-	-	-
Lottery Proceeds	-	-	-	-
Other financing source	-	-	-	-
Operating Transfers In	-	-	-	-
Reversions to State General Fund	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (17,167,873)</u>	<u>\$ (17,167,873)</u>	<u>\$ (57,365)</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, 2018**

	Endowed Merit Scholars Private- Purpose Trust Fund 88100	College Affordability Endowment Trust Fund 23900	Total Trust Fund
ASSETS			
Interest in State Treasurer General Fund Investment Pool	\$ 2,217,188	\$ -	\$ 2,217,188
Due from other funds	-	-	-
Long-term investments	-	91,047	91,047
Total Assets	<u>2,217,188</u>	<u>91,047</u>	<u>2,308,235</u>
NET POSITION			
Assets held for others			
In-trust for scholarships	<u>2,217,188</u>	<u>91,047</u>	<u>2,308,235</u>
Total Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2018**

	Endowed Merit Scholars Private- Purpose Trust Fund 88100	College Affordability Endowment Trust Fund 23900	Total Trust Fund
ADDITIONS			
Interest from investments	\$ 22,470	\$ 21,403	\$ 43,873
Unrealized gain on investment	-	103,033	103,033
Total Additions	<u>22,470</u>	<u>124,436</u>	<u>146,906</u>
DEDUCTIONS			
Professional investments fees	-	909	909
Distributions in accordance with trust agreements	-	1,475,000	1,475,000
Total Deductions	<u>-</u>	<u>1,475,909</u>	<u>1,475,909</u>
CHANGE IN NET POSITION	<u>22,470</u>	<u>(1,351,473)</u>	<u>(1,329,003)</u>
Net Position, beginning	<u>2,194,718</u>	<u>1,442,520</u>	<u>3,637,238</u>
Net Position, ending	<u><u>\$ 2,217,188</u></u>	<u><u>\$ 91,047</u></u>	<u><u>\$ 2,308,235</u></u>

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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 function of the

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2) Summary of Significant Accounting Policies - continued

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
- ◆ Adult Basic Education Fund, SHARE #68190
- ◆ GEAR UP Fund, SHARE #68280
- ◆ Lottery Tuition Fund, SHARE #63700
- ◆ Capital Projects FY2011 Fund, SHARE #89200

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

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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 ABE Instructional Material Fund
- 21700 College Affordability Scholarship Fund

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 “Scholars edge” 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).

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

The Education Trust Board is administratively attached to the Department because the Department provides administrative services to the Education Trust Board when requested by the Board. The New Mexico Prepaid Tuition Program – Section 529 Trust Plan is not included with the financial statements of the Department because the Department does not have any direct financial affairs related to the Prepaid Tuition Program.

Basis of Accounting

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The **government-wide financial statements** are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. Capital assets are reported at historical costs and depreciated over their estimated useful lives. Depreciation expense is reported in the Statement of Activities. The net position of the Department consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the residual is net position. There were no deferred outflows or deferred inflows of resources for the year ended June 30, 2018.

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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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.

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.

Inter-fund Receivables and Payables – (Due from/to other funds)

Department inter-fund 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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2) Summary of Significant Accounting Policies - continued

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

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

Employees accumulate sick leave at 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.

Pensions

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

HED, as part of the primary government of the State of New Mexico, is a contributing employer to the 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 Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, NM 87501.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

2) Summary of Significant Accounting Policies - continued

Post-Employment Benefits Other Than Pensions (OPEB).

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe New Mexico, 87501.

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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 \$14,659,267 of loans outstanding at June 30, 2018.

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 \$21,121,826 as of June 30, 2018.

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, 2018.

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, 2018.

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. The Department has (\$25,138) in unassigned fund balance reported as (\$25,000) in the federal funds (SHARE #12150) and (\$138) in the adult education (SHARE #68190) as of June 30, 2018.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

2) Summary of Significant Accounting Policies - continued

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.

Deficit Fund Balances

The Department reported two funds with a deficit fund balance, the federal funds (SHARE #12150) for (\$25,000) and the adult education (SHARE #68190) for (\$138).

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. The amount of net position associated with the investment in capital assets is \$53,895 at June 30, 2018.

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 \$35,608,690 at June 30, 2018.

Unrestricted—consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” The Department has no unrestricted net position at June 30, 2018.

Use of Estimates

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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

3) Cash and Investments

Cash

Included in cash is \$410,209 (net of overdrafts) of funds that are held in the State Treasurer's General Fund Investment Pool (SGFIP). Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP).

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.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. The comprehensive cash reconciliation model, which compares aggregated agency claims on SGFIP to the associated resources held by the State Treasurer's Office, is now in its fourth year. This process has been reviewed multiple times by the IPAs performing audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report. The reviews have deemed the process to be sound and Department of Finance and Administration fully compliant with the requirements of the monthly process. As of June 30, 2018, resources held in the SGFIP 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 Department is not permitted to have and did not have any investments of its own during the year ended June 30, 2018. Amounts for all programs are deposited into the respective fund or sub-fund. The Legislative Endowment Scholarship fund is a restricted amount, the restricted portion of \$2,217,188 is presented as a Fiduciary Fund.

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. The State Treasurer deposits monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

3) Cash and Investments - continued

collateral for such investments. The collateral generally is in the form of marketable debt service securities and is required in amounts ranging from 50% to 102% of the par value of the investments depending on the institution's operating results and capital. Collateral for the fiscal agency account is required in amounts equal to 50% of the average investment balance. 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.

Interest Rate Risk-The STO has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

The New Mexico State Treasurer has its own separate annual independent audit in which the collateral pledged to secure these accounts and other GASBS 40 reporting requirements are disclosed. The report may be obtained by writing to the New Mexico State Treasurer, P.O. Box 5135, Santa Fe, NM 87505-5135.

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	\$ 681,809	\$ -	\$ 681,809
21600	Student Financial Aid	6,029,666	-	6,029,666
63700	Lottery Tuition Fund	11,435,039	-	11,435,039
68190	Adult Education	(57,877)	-	(57,877)
68280	Gear Up	(61,418)	-	(61,418)
89200	Capital Projects FY2011	5,307,592	-	5,307,592
10990	ABE Instructional Materials	3	-	3
12150	Federal Funds	(290,914)	-	(290,914)
21700	College Affordability	103,323	-	103,323
29200	College Goal Sunday Grant Fund Post-Secondary Education	8,655	-	8,655
34400	Institution Fund	51,126	-	51,126
47900	Faculty Endowment - 47900	648	-	648
54500	Performance Fund	2,110	-	2,110
78200	Performance Development Fund	582	-	582
67970	Legislative Endowment Scholarship	729,792	-	729,792
	Total	<u>\$ 23,940,136</u>	<u>\$ -</u>	<u>\$ 23,940,136</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

3) Cash and Investments - continued

Non-expendable Trust Fund		
88100	Legislative Endowment Merit Scholarship Non-expendable Private Purpose Trust Fund excluded from the Statement of Net Position	\$ 2,217,188
23900	College Affordability Endowment	-
		<u>\$ 2,217,188</u>
	Reconciliation to Balance Sheet- Governmental Funds	
	State General Fund Investment Pool	\$ 24,350,345
	Less: Interest in SGFIP overdraft	(410,209)
	Total expendable cash	<u>\$ 23,940,136</u>

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, 2018:

Investment Type	Fair Value
Core Bonds Pool	\$ 3,982
Large Cap Activity Pool	21,725
Large Cap Index Pool	22,805
Small/Mid Cap Pool	11,231
Non US Developed Markets Pool	31,305
Total long-term investments	<u>\$ 91,048</u>

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

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

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

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

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

4) Receivables

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	\$ 313,127	US Department of Education
68190	Adult Education	Federal grant receivables	590,715	US Department of Education
68280	GEAR UP	Federal grant receivables	<u>1,072,487</u>	US Department of Education
Total Due from Federal Government			<u>\$ 1,976,329</u>	

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	\$ 5	Taxation and Revenue Dept.
89200	Capital Projects	Bond Proceeds	<u>243</u>	NM Board of Finance
Total Due from Other State Agencies			<u>\$ 248</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>\$ 3,032,577</u>	NM Lottery Authority
Total Due from State of New Mexico Component Unit			<u>\$ 3,032,577</u>	

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

4) Receivables - continued

Loans and Interest Receivable

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

Loan Type	Loan Balance 2017	Advances	Payments	Srv Applied	Loan Balance 2018	Total Accrued Interest
ALL	\$ 493,352	\$ 120,000	\$ -	\$ (151,199)	\$ 462,153	\$ 254,645
BDS	205,200	10,800	-	(17,280)	198,720	1,685
HPL	26,422	-	(596)	-	25,826	46,336
LRP	35,657	-	(882)	-	34,775	47,406
MED	2,699,093	400,000	(653)	(113,400)	2,985,040	1,526,236
MND	794,100	15,000	(15,523)	(167,795)	625,782	405,083
NLS	2,101,146	376,000	(16,496)	(346,979)	2,113,671	2,287,705
NMS	85,744	-	-	-	85,744	251,879
NSE	62,500	43,750	-	(49,500)	56,750	25
OST	211,296	-	-	(140,370)	70,926	211,294
PCP	228,170	-	-	(101,170)	127,000	-
SEN	56,988	-	-	-	56,988	233,016
TCH	265,350	-	(4,000)	(22,220)	239,130	417,704
TQ1	9,190	-	-	-	9,190	27,460
TRP	1,028	-	(1,028)	-	-	-
WCH	9,963,481	1,853,725	(226,070)	(1,907,488)	9,683,648	1,220,958
	<u>\$17,238,717</u>	<u>\$2,819,275</u>	<u>\$(265,248)</u>	<u>\$(3,017,401)</u>	<u>\$16,775,343</u>	<u>\$ 6,931,432</u>
					Allowance for uncollectible accounts	(9,047,508)
					Net loans receivable	<u>\$14,659,267</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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

4) Receivables - continued

Loans and Interest Receivable - continued

The majority of loans are forgiven due to service credit. Loans forgiven amounted to \$3,017,401 for the year ended June 30, 2018. During the year, the Department collected \$265,248 in payments for the program. 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 \$6,547,477 for interest and \$2,500,031 for principal. Total accrued interest at June 30, 2018 is \$6,931,431 of which approximately 94% of the balance is included in the allowance for doubtful accounts. Interest income for the year totaled \$1,809,209.

5) Capital Assets

The capital assets activity for the year ended June 30, 2018, is as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
Capital assets not being depreciated (Equipment and machinery not in service)	\$ -	\$ 46,525	\$ -	\$ 46,525
Equipment and machinery	36,858	-	-	36,858
Total at historical cost	36,858	46,525	-	83,383
Less accumulated depreciation:				
Equipment and machinery	22,564	6,924	-	29,488
Total accumulated depreciation	22,564	6,924	-	29,488
Capital assets, net	<u>\$ 14,294</u>	<u>\$ 39,601</u>	<u>\$ -</u>	<u>\$ 53,895</u>

Depreciation expense was charged to function as follows:

General government	<u>\$ 6,924</u>
Total depreciation	<u>\$ 6,924</u>

6) Compensated Absences Payable

Employees are entitled to accumulate annual leave at a graduated rate based on the years of service. A maximum of 240 hours can be carried forward at calendar year end. The Department has recognized a liability in the statement of net position for annual and sick leave based on current pay rates and hours accumulated at June 30, 2018. The General Fund liquidates compensated absences liabilities.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

6) Compensated Absences Payable - continued

A summary of changes in the compensated absences payable for the year ended June 30, 2018, is as follows:

Compensated Absences Payable

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018	Amount Due Within One Year
General Fund	\$ 103,561	300,968	(257,396)	\$ 147,133	\$ 147,133

7) State General Fund (Reversions)

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, 2018. 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 Department of Finance and Administration's ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS reviewed March 23, 2018, the reversion to the State General Fund was treated as a cash transaction as of June 30, rather than recording the amount as a liability which was the practice in years previous to fiscal year 2017. The reversion amount was settled using the State's adjustment period on September 28, 2018.

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, 2018 were \$317,675.

Future minimum payments under these operating leases are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2019	\$ 311,571
2020	309,642
2021	307,005
2022	309,144
2023	312,498
2024-2028	364,455
Thereafter	64,020
Total	<u>\$ 1,978,335</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

9) Other Financing Sources/Uses and Transfers

A detail of other financing sources/uses for the year ended June 30, 2018 is listed below:

Other Financing Sources/Use

Fund #	Fund Name/Description	Financing Sources	Financing Uses
91000	General Fund		
	Transfer to State General Fund for FY 2018 reversion	\$ -	\$ (149,813)
91000	General Fund		
	Transfer from Indian Affairs Department for Tribal Liaison	50,000	-
91000	General Fund		
	Transfer from the Public Education Department (PED) Tribal dual credit	25,405	-
10990	Adult Education Instructional Material		
	Transfer from the Public Education Department (PED)	114,482	-
21700	College Affordability		
	Transfer from fund 23700 for distributions	<u>1,475,000</u>	<u>-</u>
	Total Other Financing Sources/Uses	<u>\$ 1,664,887</u>	<u>\$ (149,813)</u>

A detail of inter-agency transfers for the year ended June 30, 2018 is listed below:

State Agency	Agency Fund Number	Purpose	General Fund 91000	Financial Aid 21600	Lottery Tuition 63700	Capital Projects 89200	Total
Department of Finance and Administration Agency#34101	85300	State General Fund appropriation	\$11,783,000	\$22,743,200	\$ 4,000,000	\$ -	\$ 38,526,200
State Board of Finance Agency#34103	89200	Bond proceeds appropriation	-	-	-	17,618,461	17,618,461
NM Lottery Authority Agency#81100	63700	Lottery proceeds for scholarships	-	-	40,345,357	-	40,345,357
		Total Agency Transfers	<u>\$11,783,000</u>	<u>\$22,743,200</u>	<u>\$44,345,357</u>	<u>\$17,618,461</u>	<u>\$ 96,490,018</u>

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

10) Pension Plan — Public Employees Retirement Association

Plan Description. Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Corrections Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offer 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employee Retirement Fund is set forth in Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits Provided. Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for Tier 1 members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier 1 as the average salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available. *Tier 2* - The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier 2), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier 1) remain eligible to retire at any age with 25 or more years of service credit. Generally, under Tier 2 pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

HED's contributions to PERA for the year ended June 30, 2018 was \$394,393, which equal the required employer contributions for each year.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

11) Post-Employment Benefits (OPEB) — State Retiree Health Plan

Plan Description. Employees of the Commission are provided with OPEB through the Retiree Health Care Fund (the Fund)-a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents, and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by the NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA's financial information is included with the financial presentation of the State of New Mexico.

Benefits Provided. The fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Contributions. Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each of the participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation the Fund. Contributions to the Fund from HED was \$46,099 for the year ended June 30, 2018.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

13) Restatement of Beginning Fund Balance and Net Position

During fiscal year 2018, the Department identified prior year receivables were not reduced in the subsequent year to reflect receipt of cash, and therefore, receivables and revenues were overstated. This resulted in a restatement of beginning net position as follows:

	89200 Capital Projects FY11
Fund balance at June 30, 2017, as previously reported	\$ 529,067
Adjustment to correct receivable amounts reported in previous years	(471,600)
Fund balance at June 30, 2017, as restated	\$ 57,467

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, 2017, as previously reported	\$ 25,547,235
Adjustment to correct receivable amounts reported in previous years	(471,600)
Net position at June 30, 2017, as restated	\$ 25,075,635

14) Subsequent Accounting Standard Pronouncements

GASB has issued the following statements, which are applicable in future years. At this time management has not determined the impact, if any, on the Department.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Department is still evaluating how this pronouncement will affect future financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Department is still evaluating how this pronouncement will affect future financial statements.

In June 2017, GASB Statement No. 87, *Leases* was issued. Effective Date: For reporting periods beginning after December 15, 2019. The Department is still evaluating how this pronouncement will affect future financial statements.

In April 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt*, was issued. Effective Date: For reporting periods beginning after June 15, 2018. The Department is still evaluating how this pronouncement will affect future financial statements.

14) Subsequent Events

Management has evaluated subsequent events through October 30, 2018 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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2018

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 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 Budget and Actual – Budgetary Basis (Non-GAAP) Statement. Money appropriated to the fund is nonreverting to the state general fund. 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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2018

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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2018

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, 2018

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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2018

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.

Adult Education Fund (SHARE Fund # 68910) – The purpose of this fund is to account for federal funds to services to adults, 16 years of age and older, who function below the high school completion level. New Mexico community colleges house the majority of the 24 AE programs in our state. The purpose of Adult Education Programs is to provide opportunities for: Learning basic literacy skills; placement and retention in employment and workplace programs; obtain a high school equivalency; enrolling in post-secondary education programs and learning English as a second language (ESL) and Civics. The Adult Education fund became operational in FY18 and had its activities tracked and monitored in fund 12150 in prior years. This fund is nonreverting.

GEAR UP Fund (SHARE # 68280) – The purpose of this fund is to account for federal funds allocated to the agency to increase in multiple school districts, the number of students going to post-secondary schools, enhance the college-going culture in those district communities and to improve access and opportunities within state colleges and universities for all students. Like the Adult Education Federal program, this fund became operational in FY18 and had its activities tracked and monitored in fund 12150 in prior years. This fund is nonreverting.

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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NONMAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2018

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.

Federal Funds (SHARE Fund#12150) – The purpose of the fund was created to more easily administer federal funds in a separate account for transparency and internal control purposes. This was fund was utilized for federal programs like Gear Up, No Child Left Behind and the John R. Justice federal programs prior to FY18. In FY18, a separate fund was created for both Adult Education and Gaining Early Childhood awareness. The fund was utilized for No Child Left Behind federal funding in FY 18. This fund is nonreverting.

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.

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, 2018

Nonmajor Funds - continued

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. The Capital Projects fund had no activity in fiscal year 2018 and is not presented in the combining Balance Sheet Nonmajor governmental funds or the combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor governmental funds.

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.

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 nonreverting. The American Recovery and Reinvestment Act fund had no activity in fiscal year 2018 and is not presented in the combining Balance Sheet Nonmajor governmental funds or the combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor governmental funds.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	ABE Instructional Materials-10990	Federal Funds - 12150	College Affordability - 21700	College Goal Sunday Grant - 29200
ASSETS				
State General Fund Investment Pool (SGFIP)	\$ 3	\$ -	\$ 103,323	\$ 8,655
Federal grants receivable	-	313,127	-	-
Total Assets	<u>\$ 3</u>	<u>\$ 313,127</u>	<u>\$ 103,323</u>	<u>\$ 8,655</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Voucher payable	\$ -	\$ 46,423	\$ -	\$ -
Interest in SGFIP overdraft	-	290,914	-	-
Payroll benefits & taxes payable	-	-	-	-
Other liabilities	-	790	-	-
Total Liabilities	<u>-</u>	<u>338,127</u>	<u>-</u>	<u>-</u>
Fund balances:				
Restricted for:				
Special purposes	3	-	103,323	8,655
Unassigned:				
Unassigned	-	(25,000)	-	-
Total Fund balances	<u>3</u>	<u>(25,000)</u>	<u>103,323</u>	<u>8,655</u>
Total Liabilities and Fund Balances	<u>\$ 3</u>	<u>\$ 313,127</u>	<u>\$ 103,323</u>	<u>\$ 8,655</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, 2018**

Post-Secondary Educational Institution- 34400	Faculty Endowment - 47900	Higher Education Performance - 54500	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 67970	Total Governmental Funds
\$ 51,126	\$ 648	\$ 2,110	\$ 582	\$ 729,792	\$ 896,239
-	-	-	-	-	313,127
<u>\$ 51,126</u>	<u>\$ 648</u>	<u>\$ 2,110</u>	<u>\$ 582</u>	<u>\$ 729,792</u>	<u>\$ 1,209,366</u>
\$ 1,607	\$ -	\$ -	\$ -	\$ -	\$ 48,030
-	-	-	-	-	290,914
4,190	-	-	-	-	4,190
-	-	-	-	-	790
<u>5,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>343,924</u>
45,329	648	2,110	582	729,792	890,442
-	-	-	-	-	(25,000)
<u>45,329</u>	<u>648</u>	<u>2,110</u>	<u>582</u>	<u>729,792</u>	<u>865,442</u>
<u>\$ 51,126</u>	<u>\$ 648</u>	<u>\$ 2,110</u>	<u>\$ 582</u>	<u>\$ 729,792</u>	<u>\$ 1,209,366</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, 2018**

	ABE Instructional Materials-10990	Federal Funds - 12150	College Affordability - 21700	College Goal Sunday Grant - 29200
REVENUES				
Federal grants	\$ -	\$ 328,437	\$ -	\$ -
Other licenses and permits	-	-	-	-
Interest on investments	-	-	-	75
Miscellaneous revenue	-	-	16,585	-
Total Revenues	<u>-</u>	<u>328,437</u>	<u>16,585</u>	<u>75</u>
EXPENDITURES				
Personnel services & employee benefits	-	20,000	-	-
Contractual services	-	-	-	-
Other	114,482	382,187	1,400,003	-
Total Expenditures	<u>114,482</u>	<u>402,187</u>	<u>1,400,003</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(114,482)</u>	<u>(73,750)</u>	<u>(1,383,418)</u>	<u>75</u>
OTHER FINANCING SOURCES (USES)				
Other financing source	<u>114,482</u>	<u>-</u>	<u>1,475,000</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>(73,750)</u>	<u>91,582</u>	<u>75</u>
Fund Balances - beginning	<u>3</u>	<u>48,750</u>	<u>11,741</u>	<u>8,580</u>
Fund Balances - ending	<u>\$ 3</u>	<u>\$ (25,000)</u>	<u>\$ 103,323</u>	<u>\$ 8,655</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, 2018**

Post-Secondary Educational Institution- 34400	Faculty Endowment - 47900	Higher Education Performance - 54500	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 67970	Total-Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 328,437
266,038	-	-	-	-	266,038
-	5	19	5	-	104
11,000	-	-	-	-	27,585
<u>277,038</u>	<u>5</u>	<u>19</u>	<u>5</u>	<u>-</u>	<u>622,164</u>
27,374	-	-	-	-	47,374
36,973	-	-	-	-	36,973
20,499	-	-	-	-	1,917,171
<u>84,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,001,518</u>
192,192	5	19	5	-	(1,379,354)
-	-	-	-	-	1,589,482
192,192	5	19	5	-	210,128
(146,863)	643	2,091	577	729,792	655,314
<u>\$ 45,329</u>	<u>\$ 648</u>	<u>\$ 2,110</u>	<u>\$ 582</u>	<u>\$ 729,792</u>	<u>\$ 865,442</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, 2018**

	Group	Approp. End Date	Amount Sold	Amount Drawn Prior	AIPP Amount	Amount Reverted	Amount Drawn Current	Balance Held by State Board of Finance June 30, 2018
LCC Voc Ed Complex Renovate	GOB13 12-1244	6/30/2016	\$ 4,000,000	\$ (3,836,413)	\$ -	\$ (153,828)	\$ (9,759)	\$ -
SFCC Roofing Upgrades	GOB13 12-1245	6/30/2016	1,000,000	(999,800)	-	(200)	-	-
SFCC Sign Language Interpret Prgrm Info Tech/Labs	STB12SA 12-1528	6/30/2016	58,000	(57,967)	-	310	-	343
LCC Springer Renovate	STB13A 13-1881	6/30/2017	300,000	(296,643)	(3,000)	(357)	-	-
SFCC Health Sciences Pgms Equipment	STB13A 13-1884	6/30/2017	56,000	(55,943)	-	(57)	-	-
SFCC Sign Language Equipment & Info Tech	STB13A 13-1885	6/30/2017	48,750	(48,713)	-	(37)	-	-
SFCC Trades & Tech Bldg Construct & Renovate	STB13A 13-1886	6/30/2017	117,778	(116,600)	(1,178)	-	-	-
GOB-HED Academic Library Resource Acquisitions	GOB15 14-1291	6/30/2018	3,500,000	(3,071,667)	-	-	(428,333)	-
GOB-HED CNMCC Smith Brasher Hall Renovate	GOB15 14-1296	6/30/2018	10,000,000	(9,794,309)	(100,000)	-	(105,691)	-
GOB-HED NMJC Health & Wellness Learning Ctr	GOB15 14-1298	6/30/2018	5,000,000	(4,950,000)	(50,000)	-	-	-
GOB-HED LCC Satellite Campuses Ren-Santa Rosa/Springer	GOB15 14-1299	6/30/2018	1,380,000	(616,973)	(13,800)	-	(715,522)	33,705
GOB-HED MCC Roof & Critical Infra Improve	GOB15 14-1300	6/30/2018	650,000	(570,062)	-	-	(79,361)	577
GOB-HED SJC School of Science, Math, & Engineering	GOB15 14-1301	6/30/2018	4,000,000	(1,736,355)	(40,000)	-	(2,223,645)	-
GOB-HED SFCC Critical Infra Improve	GOB15 14-1302	6/30/2018	2,000,000	(1,045,325)	-	-	(954,675)	-
*18 SFCC Alt Energy Classroom/Lab Space Improve	STB14A 14-2115	6/30/2018	240,000	(25,560)	(2,400)	-	(24,208)	187,832
SIPI Fire Alarm Improve	STB15A 15-0959	6/30/2019	500,000	-	-	-	-	500,000
CCC Barracks Demolish & Abatement	STB15A 15-0960	6/30/2019	400,000	(219,118)	-	-	-	180,882
NMJC Allied Health Building	STB15A 15-0961	6/30/2019	705,000	(140,197)	(7,050)	-	(443,688)	114,065
*18 Navajo Tech Univ Health/Security/Safety Improve	STB15A 15-0962	6/30/2019	535,000	-	-	-	-	535,000
MCC Bldg. D Roof & Infra Improve	STB15A 15-0963	6/30/2019	1,300,000	(985,124)	-	-	(314,876)	-
SJC CDL Training Lot	STB15A 15-0964	6/30/2019	500,000	(14,604)	-	-	(485,396)	-
SJC Henderson Fine Arts Ctr. Fire Alarm System	STB15A 15-0965	6/30/2019	500,000	(499,918)	(82)	-	-	-
*18 DINE College Access Lanes & Sidewalks	STB15A 15-0966	6/30/2019	700,000	-	-	-	-	700,000
LCC Media Education Center Construct	STB15A 15-0967	6/30/2019	40,000	-	-	-	(40,000)	-
*18 LCC Media Education Center	STB15A 15-0968	6/30/2019	800,000	-	-	-	(522,348)	277,652
IAIA Academic Building Roof & Cooling Units	STB15A 15-0970	6/30/2019	800,000	(794,148)	-	-	-	5,852
SFCC Automotive Facility	STB15A 15-0971	6/30/2019	90,000	(88,680)	-	-	(1,318)	2
SFCC Hydroponic/Aquaponic Greenhouses & Ed Fclty	STB15A 15-0972	6/30/2019	240,000	(59,934)	(2,400)	-	(177,666)	-
SFCC Infrastructure Improve	STB15A 15-0973	6/30/2019	400,000	(360,245)	-	-	(39,755)	-
Mesa PGM Information Tech	STB16A A2590	6/30/2018	25,000	-	-	-	(25,000)	-
MCC Info Tech	STB16A A2591	6/30/2018	105,000	(96,935)	-	-	(8,065)	-
LCC Vehicles	STB16A A2592	6/30/2018	45,000	(44,287)	-	(713)	-	-
*18 SFCC Plant Operations & Maintenance Improve	STB16A A2593	6/30/2020	50,000	(20,709)	-	-	-	29,291
SFCC Auto Equipment Purchase & Install	STB16A A2595	6/30/2018	245,000	(49,059)	-	-	(128,627)	67,314
SJC Door Lock System	STB 18A C2678	6/30/2022	255,854	-	-	-	-	255,854
SFCC Student Safety Upgrades	STB 18A C2682	6/30/2022	25,000	-	-	-	-	25,000
GOB-Academic Library Resource Acquisitions	GOB17 A5112	6/30/2021	3,250,000	-	-	-	(1,649,481)	1,600,519
GOB-CNMCC Max Salazar Hall Renovate	GOB17 A5117	6/30/2021	13,500,000	-	(135,000)	-	(843,134)	12,521,866
GOB-SIPI Library & Buildings Renovate	GOB17 A5118	6/30/2021	2,000,000	-	(20,000)	-	-	1,980,000
GOB-CCC HVAC Upgrade	GOB17 A5119	6/30/2021	2,000,000	-	-	-	(666,412)	1,333,588
GOB-NM JC Allied Health Building	GOB17 A5120	6/30/2021	4,000,000	-	(40,000)	-	(3,690,499)	269,501
GOB-Navajo Tech Univ Learning Innovation Ctr	GOB17 A5121	6/30/2021	850,000	-	(8,500)	-	-	841,500
GOB-Academic Library Resource Acquisitions	GOB17 A5122	6/30/2021	2,000,000	-	-	-	-	2,000,000
GOB-SJC Infrastructure Improvement	GOB17 A5123	6/30/2021	2,000,000	-	-	-	(14,763)	1,985,237
GOB-LCC ED Media CR Phase 2	GOB17 A5124	6/30/2021	2,000,000	-	(20,000)	-	(1,980,000)	-
GOB-IAIA Mult	GOB17 A5125	6/30/2021	2,000,000	-	(20,000)	-	(1,980,000)	-
GOB-SFCC Roofing & Infrastructure Improvement	GOB17 A5126	6/30/2021	1,500,000	-	-	-	(179,907)	1,320,093
GOB-Dine College Shiprock Campus Roadway Improve	GOB17 A5127	6/30/2021	500,000	-	-	-	-	500,000
			<u>\$ 76,211,382</u>	<u>\$ (30,595,288)</u>	<u>\$(463,410)</u>	<u>\$(154,882)</u>	<u>\$(17,732,129)</u>	<u>\$ 27,265,673</u>

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF SPECIAL APPROPRIATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2018

Description	Authority	Appropriation Period	SHARE Fund	Total Original Appropriation	Current Year Expenditures	Unexpended at June 30, 2018
State General Fund:						
Legislative Lottery Tuition Scholarships	Laws of 2018, 2nd Session, Chpt 73, Section 5	6/30/2019	21600	\$ 4,000,000	\$ 4,000,000	\$ -
Adult Education	Laws of 2018, 2nd Session, Chpt 73, Section 5	6/30/2019	91000	30,000	-	30,000
Total Special Appropriation				\$ 4,030,000	\$ 4,000,000	\$ 30,000

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2018**

Federal Grantor / Pass-through Grantor / Program Title / Fund Title / Contract Number	Pass-Through Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Education			
Direct Programs:			
Adult Education- Basic Grants to States	V002A120032	84.002	\$ 4,249,794
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S12005	84.334	5,362,006
No Child Left Behind FFY15	S367B130028	84.367	135,821
No Child Left Behind FFY16	S367B120028	84.367	266,366
Total U.S. Department of Education Direct			<u>\$ 10,013,987</u>

Program Title	CFDA Number	Federal Amount Provided to Subrecipients
Adult Education - Basic Grants to States	84.002	\$ 3,560,920
GEAR-UP	83.334	3,326,732
No Child Left Behind	84.367	398,776
Total provided to Subrecipients		<u>\$ 7,286,428</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2018**

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 2018 Catalog of Federal Domestic Assistance.

5) Subrecipients

Of the federal expenditures presented in the schedule, the Department provided federal awards to educational institutions and a state agency in the amount of \$7,246,428. The agencies 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, 2018**

5) Subrecipients – continued

<u>Subrecipients Name</u>	<u>Pass through Funds</u>
Adult Education	
Albuquerque GED	\$ 81,501
Catholic Charities	191,838
Central New Mexico Community College	351,145
Clovis Community College	79,862
Dine College	179,114
Eastern New Mexico University	262,088
Luna Community College	52,106
Mesalands Community College	48,402
New Mexico Corrections	289,524
New Mexico Junior College	96,871
New Mexico State University	572,349
Northern New Mexico College	93,691
San Juan College	158,875
Santa Fe Community College	312,055
Southwestern Indian Polytechnic Institution	54,873
University of New Mexico	659,810
Western New Mexico University	76,816
	\$ 3,560,920
Gear Up	
Bernalillo Public Schools	\$ 462,092
Central Consolidated Schools #22	297,400
Grants/Cibola County Schools	276,542
Jemez Mountain School District No 53	191,050
Jemez Valley Public Schools	248,331
Los Lunas Schools	386,319
Mora Independent Schools	307,996
Pecos Independent School District	306,481
Penasco Independent School District	331,058
Santa Fe Public Schools	314,851
Walatowa High Charter School	204,612
	\$ 3,326,732

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER SUPPLEMENTARY INFORMATION - (CONTINUED)
JUNE 30, 2018**

5) Subrecipients – continued

<u>Subrecipients Name</u>	<u>Pass through Funds</u>
No Child Left Behind	
<i>FFY2015 Grant:</i>	
Eastern New Mexico University	\$ 2,014
New Mexico Highlands University	42,359
New Mexico State University	47,951
Western New Mexico University	56,669
<i>Subtotal FFY2015</i>	<u>\$ 148,993</u>
<i>FFY2016 Grant:</i>	
Eastern New Mexico University	\$ 59,528
New Mexico Highlands University	23,755
New Mexico Institute of Mining and Technology	81,051
New Mexico State University	85,449
<i>Subtotal FFY2016</i>	<u>\$ 249,783</u>
	<u>\$ 398,776</u>
 Subrecipients Total	 <u><u>\$ 7,286,428</u></u>



**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
State of New Mexico
Higher Education Department

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, 2018, 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 30, 2018.

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 2018-001 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, 2016-005, 2016-006 and 2018-002.

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 30, 2018



State of New Mexico
OFFICE OF THE STATE AUDITOR

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

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

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, 2018. 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, 2018.

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, material weaknesses may exist that have not been identified.

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



Office of the State Auditor
Santa Fe, New Mexico
October 30, 2018



NEW MEXICO
HIGHER EDUCATION DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

PRIOR YEAR FINDINGS

Financial Statement Findings

- 2010-001 Entity-Level Controls over Financial Reporting - Repeated and modified
- 2015-002 Untimely Deposit of Cash – Repeated and modified
- 2016-003 Information Technology General Controls – Resolved
- 2016-005 Travel and Per Diem – Repeated and modified
- 2016-006 Use of State Issued Gas Credit Cards – Repeated
- 2016-008 Chief Procurement Officer’s Reporting Requirements – Resolved

Federal Award Findings

- 2017-001 Payroll Charges to Federal Grants – Resolved
- 2017-002 Payment Violation – Resolved

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

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? | No |

Federal Programs:

- | | |
|-----------------------------------------------------------------------------------------------------------------------|------------|
| 1. Internal Control over major programs: | |
| a. Material Weakness Identified? | No |
| b. Significant Deficiencies not considered to be material weakness? | No |
| | |
| 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 section 510(a) of Circular A-133? | No |

4. Identification of Major Programs:

<u>Program Name</u>	<u>CFDA Number</u>
---------------------	--------------------

Adult Education	84.002
-----------------	--------

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, 2018**

FINANCIAL STATEMENT AUDIT FINDINGS

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

CONDITION

NMHED identified a \$471,600 balance in the due from other state agencies account that was not properly supported at fiscal year-end. This required an adjustment with a restatement to fund balance in the Capital Projects fund (SHARE #89200). This restatement appears to be due to an absence of controls, including effective monitoring of accounts in the prior year.

Management made significant progress in correcting the condition in fiscal year 2018. The prior year finding listed several items that required adjustment and the current year finding noted one item.

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.

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 the prior year. In addition, there were employee vacancies in key management positions in the prior year.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

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

RECOMMENDATION

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

The \$471,600 due from other state agencies balance in HED`s books originates from prior years that resulted from a misstatement in the agency`s fund balance of our capital outlay fund. After a detailed reconciliation, Management has cleaned up this balance along with the associated fund balance.

An audit entry has been created to restate fund balance, clear the receivable and FY18 activity has been reconciled to take care of the residual fund balance amount. As of this FY18 audit, the fund is fully reconciled and all balances properly stated. Management intends to keep up the newly instituted internal controls and reconciliation processes to mitigate and completely avoid a reoccurrence of identical issues.

In FY18, Management hired a Chief Financial Officer who proceeded to fill all vacant positions within the Administrative Services Division. The Chief Financial officer has trained ASD staff as well as the Capital Outlay staff on internal controls consistent with the COSO framework and monthly reconciliation process that will monitor and correct in real time any errors resulting from the operation of the capital outlay fund. The CFO is currently responsible for implementing and monitoring proper internal controls for the agency.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

2018-001 LOAN FOR SERVICE TRANSACTIONS (SIGNIFICANT DEFICIENCY)

CONDITION

During our testwork over internal controls over 62 transactions related to the financial aid loan for service loans we noted the following:

- The current process for cancellations does not include procedures to ensure that all cancellations are reviewed. There is one individual that has access to the loan tracking system (SAL Net) to initiate and record the transactions. The current process includes a review of each individual transaction by a second individual; however, the review of the amount reduced in the loan tracking system is not clearly documented. In addition, the monthly activity is not reconciled or reviewed in the aggregate to ensure that all transactions cancelled for the month were appropriately approved.
- One participant's loan was listed at \$30,000 in SAL Net, however the documentation in the loan file supported a loan balance of \$7,500, a difference of \$22,500. The participant is under the Minority Doctoral Loan for Service Program.
- One advancement was made at \$5,600 and the loan agreement was for \$5,000, resulting in a difference of \$600. The participant is under the Nursing Student Loan Program.
- One advancement was made at \$12,650 and was returned by the school when the student disenrolled. A loan advancement was made when the student returned to school the following fall for \$12,875 without a new signed loan agreement. This resulted in a difference of \$225. The participant is under the Western Interstate Commission on Higher Education Program.
- One participant's interest rate was input at the five year treasury note rate, however, the amount per the Loan for service agreement should be should be the five year treasury note rate plus 2%. The participant is under the Minority Doctoral Loan for Service Program.

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.

Advancements should agree to signed Loan for service agreements. Section 21-22B-6 NMSA 1978 and 21-29-2 NMSA 1978 state that loans shall be evidenced by a contract between the student and the Department acting on behalf of the state and the contract shall provide for the payment by the state of a stated sum covering the cost.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

**2018-001 LOAN FOR SERVICE TRANSACTIONS (SIGNIFICANT DEFICIENCY)
(CONTINUED)**

CRITERIA (CONTINUED)

Section 21-21I—5 (E) NMSA 1978 states that a recipient who fails to complete the contract terms shall be converted to a loan with an applied annual interest rate equal to the treasury note rate in existence at the time the contract is entered into plus two percent.

CAUSE

HED has a process to review individual transactions that are canceled but does not include procedures to evaluate completeness. Also, current review procedures for individual transactions are not clearly documented.

SAL Net allows different “buckets” to be set up for loans for service. The individual transaction tested had four different buckets that were duplicating the one outstanding balance remaining.

Adjustments to advancements were made without updating the original signed Loan for- service agreements.

The interest rate was input incorrectly in SAL Net.

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. The actual amounts advanced may not be recoverable. Additionally, HED is not in compliance with State statutes.

RECOMMENDATION

We recommend the following:

Develop a procedure to include a review of aggregate cancellations by an individual other than the one that processed the transactions.

Review the detail loan listing and create a listing of participants with buckets of loans. Individuals with buckets of loans should be reviewed to ensure the loan file documentation is in agreement with the SAL Net balances.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

**2018-001 LOAN FOR SERVICE TRANSACTIONS (SIGNIFICANT DEFICIENCY)
(CONTINUED)**

RECOMMENDATION (CONTINUED)

Develop procedures to ensure future transactions for individuals with buckets are processed appropriately and the ending balance reported is accurate. Review procedures, and update as necessary, to ensure that adjustments to advancements are not processed until an updated agreement is signed.

Ensure quality control procedures are consistently followed to ensure that interest rates are input correctly into SAL Net.

MANAGEMENT RESPONSE

Review of the amount reduced in the loan tracking system is documented through both the signature by the Director of the employment verification form (EVF) and a review of the ESCI/SAL Net screen shot showing the loan balance included in the file. In the future the Director will also sign periodic related screen shots from the ECSI system along with the form indicating verification of loan balance. This will serve as an internal control for the division moving into FY19.

The discrepancy of \$22,500 in loan balance was due to 4 loan buckets of \$7,500 each being recorded within ECSI. The loan recipient had provided service on his loan but neglected to notify the Department or submit an EVF. Upon verification of his employment and service to the state, pro-rated service credit was given to the participant, reducing the balance to \$7,500. Included with the SAL Net contract is a clause that system errors, once identified, must be corrected within 5 business days. The Department will notify SAL Net to ensure that in the future duplicate loan buckets are properly adjusted for any service credit awarded.

Institutions may modify a student's award in the Spring semester, at which time a new loan agreement is generated. In this case, a mail merge coding error resulted in the correct amount of \$5,600 awarded in the Spring, but no new agreement was generated. In the future HED will conduct additional data checks to verify amended award amounts and that all new agreements required are generated.

The WICHE student that returned after a semester delay received support totaling the amount awarded within the AY2017 agreement but received half of the support in the AY2018 academic year. Moving forward, the agency will execute new agreements for both AY2017 and AY2018 reflecting the correct award amounts for each year.

All corrective action plans will be implemented within the first six months of FY19 by the Financial Aid Division Director, supervisor and the agency CFO.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

**2018-001 LOAN FOR SERVICE TRANSACTIONS (SIGNIFICANT DEFICIENCY)
(CONTINUED)**

MANAGEMENT RESPONSE (CONTINUED)

In the future, the Financial Aid Director will conduct a second review of interest rates entered into SAL Net to ensure that interest rates are assessed based on 5-year note rates plus two percent in compliance with statute.

Two of these cases are related to activities within the Minority Doctoral Loan for Service program. It should be noted that this program has since been discontinued, though its discontinuance is unrelated to this finding.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

FEDERAL AWARD FINDINGS - NONE

SECTION 12-6-5 NMSA 1978 FINDINGS

**2015-002 UNTIMELY DEPOSIT OF CASH – CONTROLS OVER CASH RECEIPTS
(OTHER NONCOMPLIANCE - REPEATED)**

CONDITION

During our testwork of 60 cash receipts we noted the following:

- Seven receipts, totaling \$12,429, were not deposited by the next business day.

Management is still working to correct this noncompliance finding.

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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

**2015-002 UNTIMELY DEPOSIT OF CASH – CONTROLS OVER CASH RECEIPTS
(OTHER NONCOMPLIANCE - REPEATED) (CONTINUED)**

MANGEMENT RESPONSE

The department is taking two major steps to improve the workflow related to processing checks. The majority of the checks that come to the agency are for payment of fees related to the Private Postsecondary Schools Division or transcript requests. Within the next month, these functions will have a fully implemented online payment and digital application system. Through implementation of the online system, incoming checks to the agency via regular mail will be reduced by approximately 90%. The overall volume of checks and the processing time required to deposit those checks will be greatly reduced. The division has implemented a digital scanning deposit system available through Wells Fargo. The scanning system will eliminate the need to physically deposit checks at the bank location and will help reduce the overall time spent on making deposits, thus reducing possibility of exceeding the deadline for making despots. Major staffing issues within ASD led to the decentralization of the check deposit process in an effort to maintain some internal controls and segregation of duties in the process. The Process has proven cumbersome and challenging due to the need to coordinate schedules between three divisions. ASD is currently fully staffed. The check deposit process has been moved entirely within ASD and is split between the staff. The agency will remove the involvement of all other non-ASD divisions within the deposit process. This leaves responsibility and management of the checks solely within ASD, making it a much more efficient process. The agency will be modifying its policy to remove the staff from the other divisions. These improved processes will be implemented within the first quarter of FY19 by the CFO and the entire ASD staff

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

CONDITION

During our testwork for compliance with the Mileage and Per Diem Act, we noted the following:

- One payment voucher reimbursed mileage at a rate \$0.46 instead of \$0.43, resulting in an overpayment of \$6.96.
- One payment voucher reimbursed an employee \$35.65 for in state meals on one day, resulting in an overpayment of \$5.65.
- One payment voucher reimbursed an employee mileage when the mileage radius was less than 35 miles from the employee's home, resulting in an overpayment of \$30.40.

Management has corrected the prior year issue, however, different instances of noncompliance with the Act were noted.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

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

CRITERIA

Section 2.42.2.11.B(1) NMAC requires mileage be reimbursed at 80% of the internal revenue service standard mileage rate of the previous year, the DFA mileage reimbursement rate table lists the rate of reimbursement for mileage as \$0.43 for the period January 1, 2018 through December 31, 2018.

Section 10-8-4(K) (2) NMSA 1978, states that actual expenses for meal are limited to \$30.00 for in-state travel for one day.

Section 10-8-4 (B) NMSA 1978 states that employees who are traveling within the state but away from the employee's home and designated post of duty on official business shall receive reimbursement. Section 2.42.2.7 (F) NMAC states that home means the area within a 35-mile radius of the place of legal residence.

CAUSE

Procedures to ensure compliance with the Per Diem and Mileage Act were not effective. Employees and supervisors submitting reimbursements may not have been aware of all requirements of the applicable State statutes and NMACs.

EFFECT

Noncompliance with State statutes.

RECOMMENDATION

We recommend that HED provide training to employees and supervisors on the requirements of the Mileage and Per Diem Act. Also, the Department should implement procedures to ensure compliance with State statutes.

MANAGEMENT RESPONSE

Immediately upon learning of potential issuance of findings in September, NMHED put together a training for the agency on travel reimbursement. The training included topics related to travel reimbursement including: per diem, actual expenses for meal reimbursement limitations, mileage rate calculation and limitations, 35-mile radius of the place of legal residence, and other topics related to travel reimbursement all pulled from statutes and regulations. This training was complete for all staff in and will be repeated annually. The CFO will be responsible for ensuring this plan is effectively implemented.

Management will also be more diligent in approvals of travel reimbursement requests to ensure all reimbursement rules and guidelines are followed.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

2016-006 USE OF STATE ISSUED GAS CREDIT CARDS (OTHER NONCOMPLIANCE – REPEATED)

CONDITION

During our testwork of four voucher payments for gas cards, we noted the following:

- One transaction included the purchase of high grade fuel totaling \$20.00.

Management has made progress towards correcting this finding, the prior year finding noted three instances of purchases for high grade fuel.

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 identify the purchase of high grade fuel during review of the invoice.

RECOMMENDATION

HED should continue to monitor the use of gas cards for compliance with State statutes. HED should also remind employees of policies and procedures pertaining to gas cards.

MANAGEMENT RESPONSE

Management continues to monitor fuel usage to ensure that staff is using regular fuel for the state cars as opposed to premium gas. There was ambiguity in this instance as employee stated regular gas was used, even though the wex invoice stated regular-Pro. Management has had discussions with other agencies who have experienced the same issue. Unfortunately, the actual receipt from the gas pump was not available to confirm definitively, the type of fuel that was used.

Moving forward, management has had meetings with staff that drive state cars to discuss this issue. Employees have been instructed to use regular fuel at all times and keep all invoices received at the pump for the purpose of cross referencing with the final invoice from Wex (the owner of our fuel cards).

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

2016-006 USE OF STATE ISSUED GAS CREDIT CARDS (OTHER NONCOMPLIANCE – REPEATED) (CONTINUED)

Management is putting extra effort to review all gas reimbursements more closely to avoid paying for premium gas, and in the event that this happens, reimbursements will be sought from the employee to make up for the extra cost incurred for the use of premium gas. Finance staff who create the vouchers and the CFO will be responsible for ensuring this does not happen in the future, by closely monitoring all voucher creation and approval respectively.

2018-002 PAYROLL INTERNAL CONTROLS (OTHER NONCOMPLIANCE)

CONDITION

During our testwork of 61 payroll transactions we noted the following:

- One employee file did not contain an employer signature on the Form I-9, *Employment Eligibility Verification*.

CRITERIA

Per Section 1.7.1.12 NMAC, the director and agencies shall maintain a record of each employee's employment history in accordance with operational necessity and applicable state and federal law requirements.

The Immigration Reform Act of 1986 (IRCA), requires that a properly completed Form be on file for any employees hired after November 6, 1986. 8 USC § 1324a-Unlawful Employment of Aliens requires the hiring entity to retain the properly completed I-9 Form for either three years after the hire date or one year after the individual has been terminated, whichever is longer.

CAUSE

HED has shared services with the State Personnel Office (SPO) for human resource duties. SPO did not properly certify the Form I-9, *Employment Eligibility Verification*. HED and SPO have not reviewed employee documents regularly to ensure that proper documentation has been retained for employees.

EFFECT

Noncompliance with IRCA regulations. HED may be subject to fines due to noncompliance with state and federal regulations.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

**2018-002 PAYROLL INTERNAL CONTROLS (OTHER NONCOMPLIANCE)
(CONTINUED)**

RECOMMENDATION

HED should develop a process to ensure that proper documentation is maintained for employment.

MANAGEMENT RESPONSE

The I-9 form in question is related to FY17. At the time, the I-9 Form was duly signed by employee, and the State Personnel Office (SPO) did not sign their corresponding part.

The agency has a Service Level Agreement (SLA) with State Personnel Office (SPO), a service for which HED pays \$42k annually. Per this agreement, SPO is the repository of all personnel related paperwork; they perform the new employee on-boarding process and ensure that all relevant, mandatory paperwork and codes of conduct are signed and returned to them for final signature and storage. HED does not have access to SPO's storage database, and access to Human Capital Management (HCM) personnel records in SHARE is limited strictly to SPO human resource staff, which in HED's case, points back to SPO personnel. The agency has yet to receive an audit of its personnel records as requested of SPO at the end of FY17.

All division directors have been cautioned to keep copies of all personnel related documents in the future. This will prevent identical findings and keep the agency in compliance with state and federal employment requirements.



**State of New Mexico
Higher Education Department
Corrective Action Plan
For the Year Ended June 30, 2018**

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2010-001 Entity-Level Controls Over Financial Reporting	The agency has hired a Chief Financial Officer who has final review and approval of every financial transaction created within the agency. Every division still has a financial specialists responsible for creating their purchase orders and vouchers. These documents are submitted to the CFO for final approval. All correcting journal entries and the cash/check process, the budget and audit process have been centralized within ASD. ASD now has enough staff to allow for a centralization of financial functions like journal entry creation and cash management while ensuring adequate segregation of tasks to allow for an adequate internal control system.	Chief Financial Officer	June 30, 2018
2018-001 Loan For Service Transactions	<p>Review of the amount reduced in the loan tracking system is documented through both the signature by the Director of the employment verification form (EVF) and a review of the ESCI/SAL Net screen shot showing the loan balance included in the file. In the future the Director will also sign periodic related screen shots from the ECSI system along with the form indicating verification of loan balance. This will serve as an internal control for the division.</p> <p>The discrepancy of \$22,500 in loan balance was due to 4 loan buckets of \$7,500 each being recorded within ECSI. The loan recipient had provided service on his loan but neglected to notify the Department or submit an EVF. Upon verification of his employment and service to the state, pro-rated service credit was given to the participant, reducing the balance to \$7,500. Included with the SAL Net</p>	Chief Financial Officer and Financial Aid Division Director	June 30, 2018

State of New Mexico
Higher Education Department
Corrective Action Plan - Continued
For the Year Ended June 30, 2018

contract is a clause that system errors, once identified, must be corrected within 5 business days. The Department will notify SAL Net to ensure that in the future duplicate loan buckets are properly adjusted for any service credit awarded.

Institutions may modify a student's award in the Spring semester, at which time a new loan agreement is generated. In this case, a mail merge coding error resulted in the correct amount of \$5,600 awarded in the Spring, but no new agreement was generated. In the future HED will conduct additional data checks to verify amended award amounts and that all new agreements required are generated.

The WICHE student that returned after a semester delay received support totaling the amount awarded within the AY2017 agreement but received half of the support in the AY2018 academic year. Moving forward, the agency will execute new agreements for both AY2017 and AY2018 reflecting the correct award amounts for each year.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2018**

EXIT CONFERENCE

An exit conference was conducted on October 30, 2018, in which the contents of this report were discussed with the following:

New Mexico Higher Education Department

Dr. Barbara Damron	Cabinet Secretary
Jeneva LiRosi	Deputy Cabinet Secretary and General Counsel
Miranda Ntoko	Chief Financial Officer
Ale Rodriguez	Financial Analyst Advanced

New Mexico Higher Education Department – Consultant

Javier Machuca, CPA	REDW
---------------------	------

New Mexico Office of the State Auditor

Lynette Kennard, CPA, CGFM	Financial Audit Director
----------------------------	--------------------------

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 Auditor's Report. Management reviewed and approved the financial statements.