



State of New Mexico

Higher Education Department

Financial Statements

and

Independent Auditor's Report

June 30, 2019



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HIGHER EDUCATION DEPARTMENT
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JUNE 30, 2019**

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**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
OFFICAL ROSTER
JUNE 30, 2019**

<u>Name</u>	<u>Title</u>
Dr. Kate O'Neill	Cabinet Secretary
Carmen Lopez-Wilson	Deputy Cabinet Secretary
Mario Suazo	Chief of Staff, Chief Financial Officer
Sandy Liggett, J.D.	General Counsel
Vacant	Public Information Officer
Bridgette Noonan	Academic Affairs and Policy Director
Vacant	Administrative Services Director
Francis Bannowsky, J.D.	Adult Education Director
Gerald Hoehne	Capital Projects Director
Dr. Harrison Rommel	Financial Aid & Institutional Finance Director
Melanie Granito	Gear Up Director
Bogi Malecki	Information Technology Officer
Dina Advani	Director of Research and Analysis
Pascal Buser	Director of Private and Post-Secondary Schools



State of New Mexico Office of the State Auditor

CONSTITUENT SERVICES
(505) 476-3821

INDEPENDENT AUDITOR'S REPORT

Dr. Catherine O'Neill, 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, and the aggregate remaining fund information, of the New Mexico Higher Education Department (Department), as of and for the year ended June 30, 2019, 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, of the Department, as of June 30, 2019, 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, and budgetary comparisons on pages 4-11, and 48-52 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, including budgetary comparisons for the general fund and major special revenue funds, 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 and schedule of special 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, 2019, 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, 2019

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. 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 2019, the Policy and Programs Division continued working on four major initiatives that will improve cohesiveness between New Mexico's public and tribal higher education institutions (HEIs). These initiatives seek to create a statewide higher education system that will facilitate credit transfer and articulation between all of New Mexico's public HEIs. This work includes:

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FOR THE YEAR ENDED JUNE 30, 2019**

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.

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, 2019. 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.

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HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019**

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 2019 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.

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HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Statements

Reconciliation of Department-wide Financial Statements to Fund Financial Statements: Differences in amounts reported in the department-wide financial statements versus the fund financial statements result from the different measurement focus and basis of accounting used. The measurement focus used for governmental funds is based on budgetary control and the flow of resources in the current year. As an example, capital purchases are treated as expenditures of the current year. Department-wide financial statements reflect such transactions as allocations over the time of use in the form of depreciation. A reconciliation of differences between department-wide and fund financial statements is provided in separate schedules that detail the differences in accounting treatment.

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

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

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

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HIGHER EDUCATION DEPARTMENT
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FOR THE YEAR ENDED JUNE 30, 2019**

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.

- ◆ 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, 2019 increased by \$23.3 million in comparison to 2018. Total assets increased \$1.9 million mainly due to the increase in cash from the new fund, Teachers Preparation Affordability Scholarship fund of \$10 million and increase in cash from the lottery tuition fund of \$11.5 million. Table A-1 summarizes the Department's net position for the fiscal year ended June 30, 2019.

**Table A-1 Detail of Department Condensed Net Position
as of June 30, 2019 and 2018 (thousands)**

	2019	2018	Change	Percentage of Change
Assets				
Current assets	\$ 51,187	\$ 28,949	\$ 22,238	76.82%
Noncurrent assets	14,838	14,659	179	1.22%
Capital assets, net of accumulated depreciation	38	54	(16)	-29.63%
Total assets	<u>66,063</u>	<u>43,662</u>	<u>22,401</u>	<u>51.31%</u>
Liabilities				
Current liabilities	6,428	7,852	(1,424)	-18.14%
Compensated absences	119	147	(28)	-19.05%
Total liabilities	<u>6,547</u>	<u>7,999</u>	<u>(1,452)</u>	<u>-18.15%</u>
Net Position				
Investments in capital assets, net of debt	38	54	(16)	-29.63%
Restricted	59,478	35,609	23,869	67.03%
Unrestricted	-	-	-	0.00%
Total net position	<u>\$ 59,516</u>	<u>\$ 35,663</u>	<u>\$ 23,853</u>	<u>66.88%</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019**

Changes in Net Position

The Department experienced a change in net position at June 30, 2019 of \$23.3 million in comparison to 2018. Total program revenues decreased by 3.78%. Lottery revenue increased by \$2.77 million or 6.55%. 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, 2019.

**Table A-2 Statement of Activities
For the year ended June 30, 2019 and 2018 (thousands)**

	2019	2018	Change	Percentage of Change
Program Revenues				
Program revenues	\$ 9,931	\$ 10,206	\$ (275)	-2.69%
Program Expenses				
Education expenses	(102,384)	(99,689)	(2,695)	2.70%
Net program revenue (expense)	(92,453)	(89,483)	(2,970)	0.01%
General Revenues (Expenses)				
State appropriations	40,238	38,526	1,712	4.44%
Proceeds of state general obligation and severance tax bonds	11,167	17,618	(6,451)	-36.62%
Proceeds from lottery	43,110	40,345	2,765	6.85%
Other financing sources	31,661	1,665	29,996	1801.56%
Other financing uses	(11,294)	-	(11,294)	-
Reversions	(124)	(150)	26	-17.33%
Miscellaneous	964	189	775	410.05%
Total general revenues (expenses)	115,722	98,193	17,529	17.85%
Investment earnings	584	1,876	(1,292)	-68.87%
Change in net position	23,853	10,586	13,267	125.33%
Net position, beginning	35,661	25,547	10,114	39.59%
Restated	-	(472)	472	-100.00%
Net position, beginning of year, restated	35,661	25,075	10,586	42.22%
Net position, ending	\$ 59,514	\$ 35,661	\$ 23,853	66.89%

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. The Department's budget for operations was \$102.485 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 revenues. The Department's grant programs are funded by the federal governments which rely on federal appropriations. 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 classified 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 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 GenTax Database reporting system, and product price forecasts are derived from the national economic forecasting services and other sources.

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HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019**

Trends in the U.S. Economy

The U.S. economy continued to grow in State fiscal year 2019. The national economy, as measured by real gross domestic, grew by 2.6 percent in fiscal year 2019. Total employment levels averaged 2.4 million, or 1.5 percent, above fiscal year 2018. U.S. average hourly wages grew by 3.2 percent, exceeding inflation of 2.1 percent.

U.S. economic growth is expected to continue at a moderate pace in fiscal year 2019, with projected GDP growth of 2.6 percent. In fiscal year 2019 the international trade war has created economic uncertainty and national analytics firms have warned of a potential recession on the horizon. The Federal Reserve is expected to lower short-term interest rates headed into fiscal year 2020, in an effort to bolster US economic strength. The Federal Reserve cites strong labor markets, a historic low unemployment rate, and strong household spending for a continued positive economic outlook.

New Mexico Economy

The New Mexico economy grew moderately in fiscal year 2019 and the energy sector continued to provide significant contributions. Reflective of New Mexico economic growth, state wages and salaries grew by 4.9 percent and total personal income in the state grew by 4.6 percent. During fiscal year 2019, New Mexico employment growth averaged 1.9 percent, adding 15,800 jobs. During fiscal year 2019 the Mining Sector has continued to grow setting new record levels for rig count, oil production, and taxable gross receipts. The Mining sector added 2,000 jobs during fiscal year 2019. Other sectors driving growth in fiscal year 2019 were the Construction Sector, the Professional and Business Services Sector, and the Leisure and Hospitality sector increasing employment by 3,100 jobs, 2,000 jobs, and 1,800 jobs respectively.

Natural gas prices remained low in fiscal year 2019. Oil prices in fiscal year 2019 have remained lower than oil prices in fiscal year 2018. However, this has been offset by record levels of oil production in fiscal year 2019. Average New Mexico prices in fiscal year 2019 for crude oil and natural gas were \$51.80 per barrel and \$3.05 per mcf, respectively. New Mexico continued to be the third largest producing state for oil and the ninth largest for natural gas.

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HIGHER EDUCATION DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
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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

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www.hed.state.nm.us

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Governmental Activities
Assets	
Current assets	
Investment in State General Fund Investment Pool	\$ 45,888,258
Due from federal government	2,149,895
Accounts Receivable	4,705
Due from State of New Mexico Component Unit	3,143,831
Total current assets	51,186,689
Noncurrent assets	
Loans and interest receivable, net of allowance for doubtful accounts	14,838,420
Capital assets, net	37,994
Total noncurrent assets	14,876,414
Total assets	\$ 66,063,103
Liabilities	
Current liabilities	
Accounts payable	\$ 6,137,348
Accrued salaries and benefits payable	153,663
Due to beneficiaries	12,021
Due to other state agencies	6
Due to state general fund	124,399
Compensated absences due within one year	119,171
Total current liabilities	6,546,608
Net Position	
Net investment in capital assets	37,994
Restricted	59,478,501
Total net position	59,516,495
Total liabilities, deferred inflows, and net position	\$ 66,063,103

See Independent Auditor's Report and Notes to the Financial Statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
Governmental Activities				
General government	\$ 13,003,025	\$ -	\$ -	\$ (13,003,025)
Depreciation	15,901	-	-	(15,901)
Program Activities				
General government				
Adult education	4,663,730	-	4,663,730	-
GEAR UP	4,670,985	-	4,670,985	-
No child left behind	191,524	-	191,524	-
John R. Justice	66,400	-	66,400	-
Financial aid programs	21,783,366	-	-	(21,783,366)
Lottery scholarships	46,511,027	-	-	(46,511,027)
Capital projects flowthrough	11,166,702	-	-	(11,166,702)
Other funds	311,649	339,342	-	27,693
Total governmental activities	\$ 102,384,309	\$ 339,342	\$ 9,592,639	(92,452,328)
General Revenues (Expenses)				
State General Fund Appropriations				40,237,850
Bond proceeds				11,166,702
Lottery proceeds				43,110,094
Other financing sources				31,660,886
Other financing uses				(11,294,006)
Reversion to State General Fund (FY 2018)				(124,399)
Miscellaneous revenue				151,061
Interest on loans				813,612
Investment earnings				584,168
Total general revenues (expenses)				116,305,968
Change in net position				23,853,640
Net position, beginning of year				35,662,855
Net position , end of year				\$ 59,516,495

See Independent Auditor's Report and Notes to the Financial Statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General Operating Fund - 91000	Teacher Preparation Affordability Scholarship - 20760	Financial Aid - 21600	Lottery Tuition - 63700
ASSETS				
State General Fund Investment Pool (SGFIP)	\$ 1,234,818	\$ 10,000,000	\$ 17,483,850	\$ 8,506,518
Federal grants receivable	-	-	-	-
Accounts Receivable	-	-	4,705	-
Due from State component unit	-	-	-	3,143,831
Total Current Assets	<u>1,234,818</u>	<u>10,000,000</u>	<u>17,488,555</u>	<u>11,650,349</u>
Non-current Assets:				
Loans and interest receivable, net of allowance for doubtful Accounts	-	-	14,838,420	-
Total Assets	<u>\$ 1,234,818</u>	<u>\$ 10,000,000</u>	<u>\$ 32,326,975</u>	<u>\$ 11,650,349</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Voucher payable	\$ 623,851	\$ -	\$ 385,894	\$ -
Interest in SGFIP overdraft	-	-	-	-
Payroll benefits & taxes payable	104,568	-	-	-
Due to beneficiaries	-	-	-	-
Due to state general fund	124,399	-	-	-
Due to other state agencies	-	-	-	6
Total Liabilities	<u>852,818</u>	<u>-</u>	<u>385,894</u>	<u>6</u>
Fund Balances:				
Nonspendable:				
Non-Current: Loans receivable	-	-	14,838,420	-
Restricted:				
Special Purposes	382,000	10,000,000	17,102,661	11,650,343
Unassigned:				
Unassigned	-	-	-	-
Total Fund Balances	<u>382,000</u>	<u>10,000,000</u>	<u>31,941,081</u>	<u>11,650,343</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,234,818</u>	<u>\$ 10,000,000</u>	<u>\$ 32,326,975</u>	<u>\$ 11,650,349</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

Adult Education - 68190	GEAR UP - 68280	Capital Projects FY11 -89200	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 3,745,748	\$ 5,756,312	\$ 46,727,246
1,037,176	1,046,319	-	66,400	2,149,895
-	-	-	-	4,705
-	-	-	-	3,143,831
<u>1,037,176</u>	<u>1,046,319</u>	<u>3,745,748</u>	<u>5,822,712</u>	<u>52,025,677</u>
-	-	-	-	14,838,420
<u>\$ 1,037,176</u>	<u>\$ 1,046,319</u>	<u>\$ 3,745,748</u>	<u>\$ 5,822,712</u>	<u>\$ 66,864,097</u>
\$ 553,727	707,074	\$ 3,733,625	\$ 133,177	\$ 6,137,348
471,091	309,697	-	58,200	838,988
12,496	29,548	-	7,051	153,663
-	-	12,021	-	12,021
-	-	-	-	124,399
-	-	-	-	6
<u>1,037,314</u>	<u>1,046,319</u>	<u>3,745,646</u>	<u>198,428</u>	<u>7,266,425</u>
-	-	-	-	14,838,420
-	-	102	5,649,284	44,784,390
(138)	-	-	(25,000)	(25,138)
<u>(138)</u>	<u>-</u>	<u>102</u>	<u>5,624,284</u>	<u>59,597,672</u>
<u>\$ 1,037,176</u>	<u>\$ 1,046,319</u>	<u>\$ 3,745,748</u>	<u>\$ 5,822,712</u>	<u>\$ 66,864,097</u>

See Independent Auditor's Report and Notes to 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, 2019**

Total fund balance, governmental funds \$ 59,597,672

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

Governmental capital assets	83,383	
Accumulated depreciation	(45,389)	
		37,994

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		(119,171)
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Net position of governmental activities in the statement of net position		\$ 59,516,495
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**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Operating Fund - 91000	Teacher Preparation Affordability Scholarship - 20760	Financial Aid - 21600
REVENUES			
Federal grants	\$ -	\$ -	\$ -
Other licenses and permits	-	-	-
Interest on investments	-	-	-
Interest on loans	-	-	813,612
Miscellaneous revenue	4,986	-	118,584
Total Revenues	<u>4,986</u>	<u>-</u>	<u>932,196</u>
EXPENDITURES			
Current:			
Personnel services & employee benefits	2,605,797	-	-
Contractual services	863,265	-	-
Other	9,561,925	-	21,684,257
Total Expenditures	<u>13,030,987</u>	<u>-</u>	<u>21,684,257</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(13,026,001)</u>	<u>-</u>	<u>(20,752,061)</u>
OTHER FINANCING SOURCES (USES)			
General fund appropriation	13,385,000	-	22,243,200
Bond proceeds appropriations	-	-	-
Lottery proceeds	-	-	-
Other financing sources	11,411,400	-	20,029,241
Other financing uses	(11,294,000)	-	-
Transfers from other funds	-	10,000,000	-
Transfers to other funds	-	-	(10,000,000)
Reversions to State General Fund	(124,399)	-	-
Total Other Financing Sources and Uses	<u>13,378,001</u>	<u>10,000,000</u>	<u>32,272,441</u>
Net Change in Fund Balances	<u>352,000</u>	<u>10,000,000</u>	<u>11,520,380</u>
Fund Balance - beginning	30,000	-	20,420,701
Fund Balances - ending	<u>\$ 382,000</u>	<u>\$ 10,000,000</u>	<u>\$ 31,941,081</u>

See Independent Auditor's Report and Notes to 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, 2019**

Lottery Tuition - 63700	Adult Education - 68190	GEAR UP - 68280	Capital Projects FY11 -89200	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,663,730	\$ 4,670,985	\$ -	\$ 257,924	\$ 9,592,639
-	-	-	-	339,342	339,342
583,805	-	-	-	363	584,168
-	-	-	-	-	813,612
27,491	-	-	-	-	151,061
<u>611,296</u>	<u>4,663,730</u>	<u>4,670,985</u>	<u>-</u>	<u>597,629</u>	<u>11,480,822</u>
-	332,211	719,325	-	149,486	3,806,819
-	109,837	737,236	-	14,370	1,724,708
46,511,027	4,221,682	3,214,424	11,166,702	504,826	96,864,843
<u>46,511,027</u>	<u>4,663,730</u>	<u>4,670,985</u>	<u>11,166,702</u>	<u>668,682</u>	<u>102,396,370</u>
<u>(45,899,731)</u>	<u>-</u>	<u>-</u>	<u>(11,166,702)</u>	<u>(71,053)</u>	<u>(90,915,548)</u>
-	-	-	-	4,609,650	40,237,850
-	-	-	11,166,702	-	11,166,702
43,110,094	-	-	-	-	43,110,094
-	-	-	-	220,245	31,660,886
(6)	-	-	-	-	(11,294,006)
-	-	-	-	-	10,000,000
-	-	-	-	-	(10,000,000)
-	-	-	-	-	(124,399)
<u>43,110,088</u>	<u>-</u>	<u>-</u>	<u>11,166,702</u>	<u>4,829,895</u>	<u>114,757,127</u>
<u>(2,789,643)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,758,842</u>	<u>23,841,579</u>
14,439,986	(138)	-	102	865,442	35,756,093
<u>\$ 11,650,343</u>	<u>\$ (138)</u>	<u>\$ -</u>	<u>\$ 102</u>	<u>\$ 5,624,284</u>	<u>\$ 59,597,672</u>

See Independent Auditor's Report and Notes to 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, 2019

Net change in fund balances - total governmental funds	\$	23,841,579
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlay		-
Depreciation expense		(15,901)
Change in compensated absences		27,962
Change in Net Position	\$	23,853,640

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	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	\$ 50,474	20,000,000	\$ 20,050,474
Long-term investments	2,305,119	-	2,305,119
Total Assets	2,355,593	20,000,000	22,355,593
NET POSITION			
Assets held for others			
In-trust for scholarships	2,355,593	20,000,000	22,355,593
Total Net Position	\$ 2,355,593	\$ 20,000,000	\$ 22,355,593

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2019**

	Endowed Merit Scholars Private- Purpose Trust Fund 88100	College Affordability Endowment Trust Fund 23900	Total Trust Fund
ADDITIONS			
General Fund Appropriation	\$ -	\$ 20,000,000	\$ 20,000,000
Interest from investments	89,715	4,438	94,153
Unrealized gain on investment	52,900	4,601	57,501
Total Additions	<u>142,615</u>	<u>20,009,039</u>	<u>20,151,654</u>
DEDUCTIONS			
Professional investments fees	4,210	86	4,296
Distributions in accordance with trust agreements	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Total Deductions	<u>4,210</u>	<u>100,086</u>	<u>104,296</u>
CHANGE IN NET POSITION	<u>138,405</u>	<u>19,908,953</u>	<u>20,047,358</u>
Net Position, beginning	<u>2,217,188</u>	<u>91,047</u>	<u>2,308,235</u>
Net Position, ending	<u>\$ 2,355,593</u>	<u>\$ 20,000,000</u>	<u>\$ 22,355,593</u>

See Independent Auditor's Report and Notes to the Financial Statements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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, 2019

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, 2019

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, one capital project fund and one general fund presented as major funds as follows:

- ◆ General Fund, SHARE #91000
- ◆ Teacher Preparation Affordability Scholarship, SHARE #20760
- ◆ Financial Aid Fund, SHARE #21600
- ◆ Lottery Tuition Fund, SHARE #63700
- ◆ Adult Basic Education Fund, SHARE #68190
- ◆ GEAR UP Fund, SHARE #68280
- ◆ 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,

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies - continued

expenditures/expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be invested or spent and the means by which spending activities are controlled.

Current accounting standards set forth the minimum criteria for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section.

The following fund types are used by the Department:

Governmental Fund Types

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means collectible within the current period, generally 60 days to be used to pay liabilities of the current period. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. 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:

20760 Teacher Preparation Affordability Scholarship

21600 Financial Aid Fund

63700 Lottery Tuition Fund

10990 ABE Instructional Material Fund

12150 Federal Funds

20840 Grow Your Own Teachers

21700 College Affordability Scholarship Fund

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies - continued

29200 College Goal Sunday Grant

34400 Post-Secondary Educational Institution Fund

47900 Faculty Endowment Fund

54500 Higher Education Performance Fund

78200 Program Development & Enhancement Fund

64400 Capital Projects

67970 Legislative Endowment Scholarship Fund

89000 American Recovery and Reinvestment Act Fund

Capital Project Funds—The Capital Project Fund are used to account for specific revenue sources related to major capital projects that are legally restricted to expenditures capital projects; therefore, any unexpended or unencumbered balance remaining in the fund at the year-end shall not revert to State General Fund. Capital project funds consist of the following:

89200 Capital Projects Fund (FY2011)

93100 Capital Projects

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 except as provided by legislation. 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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies - continued

The Board deposits all money received pursuant to college investment agreements and prepaid tuition contracts into the fund. Money in the fund consists of appropriations, investments, payments, gifts, bequests and donations. Per Section 21-21K3, all money in the fund is appropriated to the Board. Expenditures from the fund shall be for payments to institutions of higher education on behalf of beneficiaries, for refunds, and for costs of administering the Education Trust Act according to Section 21-21K3(B).

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

Basis of Accounting

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The **government-wide financial statements** are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. Capital assets are reported at historical costs and depreciated over their estimated useful lives. Depreciation expense is reported in the Statement of Activities. The net position of the Department consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the residual is net position. There were no deferred outflows or deferred inflows of resources for the year ended June 30, 2019.

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

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies - continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

the fiscal year. Expenditures are recorded when a liability is incurred, as under full accrual accounting. The Department does not have any debt service expenditures. The current portion of the compensated absences liability is not included in the fund financial statements because the State of New Mexico does not budget for any compensated absences in the current year.

Budget and Budgetary Accounting

The State Legislature makes annual appropriations to the Department which lapse at fiscal year-end. Legal compliance is monitored through the establishment of a budget (budgetary basis) and a financial control system which permits a budget-to-actual revenue and expenditure comparison.

Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. The budgetary comparison is prepared on the modified accrual basis of accounting. Budgeted appropriation unit amounts may be amended upon approval from the State of New Mexico, Budget Division of the Department of Finance and Administration within the limitations specified in the annual General Appropriation Act. Budget amounts identified as “final” in the financial statements (budget comparison statements) are the final authorized expenditure levels, including any approved revisions (budget adjustment requests).

Single Year Budget

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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies – continued

Single Year Budget - continued

- 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 2018, Chapter 73, Section 3, Item K, “For the purpose of administering the General Appropriation Act of 2018, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration.” The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. The actual expenditures in the budgetary comparison exclude any accounts payable that were not paid timely and therefore required a “Request to Pay Prior Year Bills” out of current year budget. They will be paid out of the budget of the following fiscal year. An agency’s reversions should be calculated using the budget basis expenditures because the agency does not have the legal right to keep the cash

Related to accounts payable that were not paid timely. This could result in a negative fund balance in the modified accrual basis financial statements 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.

Multi-Year Budget

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year’s beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

Budgetary Comparisons

In addition to the MD&A, GASBS No. 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented as Required Supplementary Information (RSI). The budgets are not adopted on a basis consistent with GAAP. The annual appropriation budget is legally enacted and provided for a legal level of control at the appropriation program level (PCode and ZCode) and is presented as required supplementary information.

The budgetary comparison schedules should present both the original and the final appropriated budgets for the reporting period, as well as the actual inflows, outflow and balances, stated on the government’s budgetary basis. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies - continued

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.

Interfund Transfers

During the year, the Department makes various transfers of monies to funds. Transfers are recorded as other financing sources and other financing sources (uses). These transactions are eliminated in the statement of activities for governmental fund types.

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, Information and Technology Equipment – 5 years.

Accrued Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if (a) the employees' right to receive compensation is attributable to services already rendered, and (b) it is probable that the employer will compensate employees for benefits through paid time off or some other means, such as cash payments at termination or retirement. The compensated absence liability is presented government-wide financial statements as current liability. The current liability is the amount expected to be expended during the following fiscal year. Management has estimated that the entire balance of compensated absences is a current liability.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies – continued

Accrued Compensated Absences – continued

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 a rate 3.69 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 up to 240 hours, sick leave between 600 and 720 hours, and compensatory leave for employees.

Pensions

Compliant with the requirements of Government Accounting Standards Board Statement 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.

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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies – continued

Post-Employment Benefits Other Than Pensions (OPEB) - continued

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, 2019 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.

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 \$14,838,420 of loans outstanding at June 30, 2019.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies - continued

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 \$44,784,390 as of June 30, 2019.

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, 2019.

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, 2019.

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 fund (SHARE #68190) as of June 30, 2019.

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).

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

2) Summary of Significant Accounting Policies - continued

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 \$37,994 at June 30, 2019.

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 \$59,478,501 at June 30, 2019.

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, 2019.

Tax Abatements

The Department has no tax abatements required to be disclosed in accordance with Government Accounting Standards Board Statement No. 77.

Use of Estimates

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

3) Cash and Investments

Cash

Included in cash is \$838,938 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).

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

3) Cash and Investments - continued

Cash – continued

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

The comprehensive cash reconciliation model which compares aggregated agency claims on SGFIP to the associated resources held by the State Treasurer's Office, has been completed for fiscal year 2019. This process has been previously reviewed 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 reconciliation requirements. As of June 30, 2019, resources held in the pool were equivalent to corresponding business unit claims on those resources. All claims, as recorded in SHARE, shall be honored at face value.

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, 2019. Amounts for all programs are deposited into the respective fund or sub-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 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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

3) Cash and Investments - continued

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 #	Fund/Program	State Treasurer Balance	Outstanding Warrants	Reconciled Balance
91000	General Fund	\$ 1,234,818	\$ -	\$ 1,234,818
93100	GF Capital Outlay	4,469,650	-	4,469,650
89200	Capital Projects FY2011	3,745,748	-	3,745,748
89000	ARRA	-	-	-
67970	Legislative Endowment Scholar	729,792	-	729,792
78200	Performance Development Fund	600	-	600
63700	Lottery Tuition Fund	8,506,518	-	8,506,518
54500	Performance Fund	2,174	-	2,174
47900	Faculty Endowment Fund	668	-	668
34400	Post-Secondary Education Institution Fund	201,186	-	201,186
29200	College Goal Sunday Grant Fund	8,916	-	8,916
21700	College Affordability	203,323	-	203,323
21600	Student Financial Aid	17,483,850	-	17,483,850
20840	Grow Your Own Teacher	140,000	-	140,000
20760	Teacher Prep Affordability	10,000,000	-	10,000,000
68190	Adult Education	(471,091)	-	(471,091)
68280	Gear Up Fund	(309,697)	-	(309,697)
10990	ABE Instructional Materials	3	-	3
12150	Federal Funds	(58,200)	-	(58,200)
	Total	\$ 45,888,258	\$ -	\$ 45,888,258

Trust Fund Cash

88100	Legislative Endowment Scholarship Non-expendable Trust Fund	\$ 50,474
23900	College Affordability Endowment	20,000,000
	Total Trust Fund Cash	<u>\$ 20,050,474</u>
	Reconciliation to Statement of Net Position	
	Cash and investments	\$ 46,727,246
	Less: overdraft	<u>(838,988)</u>
	Statement of Net Position cash	<u>\$ 45,888,258</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

3) Cash and Investments – continued

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

The value of the investments maintained at the State Investment Council External Pooled Investment Funds and held by the Endowed Merit Scholars Private-Purpose Trust Fund are as follows at June 30, 2019:

<u>Investment Type</u>	<u>Fair Value</u>
US Core Plus Bonds Pool	\$ 784,403
US Large Cap Active Pool	503,251
US Large Cap Index Pool	770,815
US Small/Mid Cap Pool	215,257
Non US Developed Market Pool	31,393
Total long-term investments	<u>\$ 2,305,119</u>

The State Investment Council categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Fair Value Measurement level is dependent on the Investment Pool(s) the Department is invested in. Below are the Levels by investment pool:

- Investments in Core Plus Bonds Pool - Level 2
- Investments in the Large Cap Active Pool - Level 1
- Investments in the Large Cap Index Pool - Level 1
- Investments in Small/Mid Cap Active Pool - Level 1
- Investments in Non U.S. Developed Markets Index Pool - Level 1

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. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to change in market interest rates.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

3) Cash and Investments – continued

The Department has exposure to interest rate risk by its investment in the Core Bond with the State Investment Council. Exposure to interest rate risk in the State Funds Investment Pool is limited due to its investments in short-term maturing securities.

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

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

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

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

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	\$ 66,400	US Department of Education
68190	Adult Education	Federal grant receivables	1,037,176	US Department of Education
68280	GEAR UP	Federal grant receivables	1,046,319	US Department of Education
Total Due from Federal Government			<u>\$ 2,149,895</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>\$ 3,143,831</u>	NM Lottery Authority

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

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).

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.

Loan Type	Loan Balance 2018	Advances	Payments	Srv Applied	Loan Balance 2019	Total Accrued Interest
ALL	\$ 462,154	\$ 120,000	\$ (29,976)	\$ (66,300)	\$ 485,878	\$ 289,907
BDS	198,720	-	-	(60,480)	138,240	648
HPL	25,826	-	(800)	-	25,026	51,926
LRP	34,775	-	-	-	34,775	55,535
MED	2,985,040	437,500	(132,905)	(335,000)	2,954,635	1,583,854
MND	625,782	-	(2,732)	(158,565)	464,485	445,081
NLS	2,113,672	415,656	(38,291)	(293,929)	2,197,108	2,385,194
NMS	85,744	-	-	-	85,744	269,481
NSE	56,750	42,500	-	(73,000)	26,250	39
OST	70,926	-	-	-	70,926	227,874
PCP	127,000	-	-	-	127,000	11,138
SEN	56,988	-	-	-	56,988	246,338
TCH	239,130	4,000	(130)	(17,847)	225,153	462,743
TQ1	9,190	-	-	-	9,190	29,608
WCH	9,683,648	1,770,125	(213,165)	(1,653,550)	9,587,058	1,340,218
	<u>\$ 16,775,343</u>	<u>\$ 2,789,781</u>	<u>\$ (417,999)</u>	<u>\$ (2,658,671)</u>	<u>16,488,454</u>	<u>\$ 7,399,584</u>
					Allowance for uncollectible accounts	<u>(9,049,618)</u>
					Net loans receivable	<u>\$ 14,838,420</u>

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

4) Receivables - continued

Loans and Interest Receivable - continued

The majority of loans are forgiven due to service credit. Loans forgiven amounted to \$2,658,67 for the year ended June 30, 2019. During the year, the Department collected \$417,999 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 \$6,599,275 for interest and \$2,450,343 for principal. Total accrued interest at June 30, 2019 is \$7,399,584 of which approximately 89% of the balance is included in the allowance for doubtful accounts. Interest income for the year totaled \$813,612.

5) Capital Assets

The capital assets activity for the year ended June 30, 2019, is as follows:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital assets not being depreciated (Information and Technology Equip. not in service)	\$ 46,525	-	\$(46,525)	\$ -
Information and Technology Equip.*	36,858	46,525	-	83,383
Total at historical cost	83,383	46,525	(46,525)	83,383
Less accumulated depreciation:				
Information and Technology Equip	29,488	15,901	-	45,389
Total accumulated depreciation	29,488	15,901	-	45,389
Capital assets, net	<u>\$ 53,895</u>	<u>\$ 30,624</u>	<u>\$(46,525)</u>	<u>\$ 37,994</u>

Depreciation expense was charged to function as follows:

General government	<u>\$ 15,901</u>
Total depreciation	<u>\$ 15,901</u>

*This amount was reported as Equipment and machinery in the fiscal year 2018 audit report. The Department reclassified the amount to Information and Technology Equipment during fiscal year 2019 as this classification is more representative of the capital asset characteristics.

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, 2019. The General Fund liquidates compensated absences liabilities.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

6) Compensated Absences Payable - continued

A summary of changes in the compensated absences payable for the year ended June 30, 2019, is as follows:

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019	Amount Due Within One Year
General Fund	\$ 147,133	\$ 133,793	\$ (161,755)	\$ 119,171	\$ 119,171

7) Due To other State Agencies

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, 2019. In computing the reversion amount, the Department excludes department codes that are used exclusively to account for federal or other non-state providing funding. Additionally, the Department evaluates department codes used to track special appropriations to determine amounts that are reported as restricted fund balance or are subject to reversion.

The Department of Finance and Administration's ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS reviewed on March 23, 2018, requires 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 Department did not calculate the reversion correctly and reversion amount was not settled as of the date of this report. The current year reversion and other amounts due to the State General Fund are as follows:

Due to State General Fund:

Year ended June 30:	Reversion Amount
2019	\$ 124,399
Total reversion	\$ 124,399

Due to Other State Agencies

Total amounts that are due to other state agencies is as follows:

Share Fund #	Fund	Description	Amount	Due To
63700	Lottery Tuition	Lottery Proceeds	\$ 6	Taxation Revenue Department

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, 2019 were \$343,020.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

8) Operating Leases – continued

Future minimum payments under these operating leases are as follows:

Year ended June 30	Amount
2020	\$ 317,322
2021	314,657
2022	316,776
2023	320,106
2024	251,119
2025-2029	188,004
2030-2034	201,288
2035-2039	186,768
Total	\$ 2,096,040

9) Other Financing Sources/Uses and Transfers

A detail of other financing sources/uses for the year ended June 30, 2019 is listed below:

Other Financing Sources/Use:

Fund #	Fund Name/Description	Financing Sources	Financing Uses
91000	General Fund - Transfer to higher education institutions:		
	Central New Mexico Community College	\$ -	\$ 718,000
	Clovis Community College	-	125,900
	Eastern New Mexico University	-	423,100
	Eastern New Mexico University-Roswell	-	145,300
	Luna Vocational Technical Institute	-	101,500
	Mesalands Community College	-	57,000
	New Mexico Highlands University	-	387,700
	New Mexico Institute of Mining and Technology	-	443,400
	New Mexico Junior College	-	68,900
	New Mexico Military Institute	-	17,400
	New Mexico School for the Deaf	-	57,100
	New Mexico School for the Blind and Visually Impaired	-	20,700
	Norther New Mexico College	-	141,400
	Regents of New Mexico State University	-	2,912,000
	San Juan College	-	306,200
	Santa Fe Community College	-	148,400
	The University of New Mexico		4,958,600
	Western New Mexico University	-	261,400
63700	Lottery Tuition		
	Tax and Revenue Department (Agency #33300) Liquor excise tax	-	6
	Other Financing Uses Subtotal Total	-	11,294,006

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

9) Other Financing Sources/Uses and Transfers –continued

A detail of other financing sources/uses for the year ended June 30, 2019 (continued):

Other Financing Sources/Use:

Fund #	Fund Name/Description	Financing Sources	Financing Uses
91000	General Fund Transfer from the Department of Finance and Administration (DFA, Agency #34101) to provide faculty and staff of two-year and four-year public post-secondary educational institutions, NM Military Institute, NM School for the Blind and Visually impaired and NM School for the deaf with an average two percent salary increase	11,294,000	-
91000	General Fund Transfer from the Public Education Department (PED, Agency #92400) Tribal dual credit	50,000	-
91000	General Fund Transfer from the Department of Finance and Administration (DFA, Agency #34101) for 2% agency salary increase	42,400	-
91000	General Fund Transfer from the Indian Affairs Department (Agency #60900) for Tribal Liaison	25,000	-
10990	Adult Education Instructional Material Transfer from the Public Education Department (PED, Agency #92400)	120,245	-
21600	Financial Aid Transfer from the Department of Finance and Administration (DFA, Agency#34101) to the teacher loan repayment fund	20,000,000	-
21600	Financial Aid Transfer from Board of Nurses (Agency #44900) for 1/2 revenue for Nurse Excellence Rule	29,241	-
21700	College Affordability Transfer from fund 23700 for distributions	100,000	-
	Other Financing Sources Subtotal Total	31,660,886	-
	Total Other Financing Sources/Uses	\$ 31,660,886	\$ 11,294,006

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**

9) Other Financing Sources/Uses and Transfers –continued

A detail of inter-agency transfers for the year ended June 30, 2019 is listed below:

<u>State Agency</u>	<u>Agency Fund Number</u>	<u>Purpose</u>	<u>General Fund 91000</u>	<u>Financial Aid 21600</u>	<u>Lottery Tuition 63700</u>	<u>Capital Projects 89200</u>	<u>Grow Your Own Teachers - 20840</u>	<u>Capital Projects - 93100</u>	<u>Total</u>
Department of Finance and Administration Agency#34101	85300	State General Fund appropriation	\$ 13,385,000	\$ 22,243,200	\$ -	\$ -	\$ 140,000	\$ 4,469,650	\$ 40,237,850
State Board of Finance Agency#34103	89200	Bond proceeds appropriation	-	-	-	11,166,702	-	-	11,166,702
NM Lottery Authority Agency#81100	63700	Lottery proceeds for scholarships	-	-	43,110,094	-	-	-	43,110,094
Total Agency Transfers			<u>\$ 13,385,000</u>	<u>\$ 22,243,200</u>	<u>\$ 43,110,094</u>	<u>\$ 11,166,702</u>	<u>\$ 140,000</u>	<u>\$ 4,469,650</u>	<u>\$ 94,514,646</u>

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),

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

10) Pension Plan — Public Employees Retirement Association – continued

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, 2019 was \$453,780, which equal the required employer contributions for each year.

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 \$53,416 for the year ended June 30, 2019.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

12) Risk Management and Litigation

The Department is exposed to various risk of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Section 15-7-2, NMSA 1978 requires the General Service Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure, or use a combination of both. For the past several years, the RMD has elected to self-insure and has not obtained liability coverage from commercial insurance companies. The RMD has effectively managed risk through various employee education and prevention programs. Risk management expenditures for the Department are accounted for in the General Fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Department is a party.

13) 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 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.

14) Subsequent Events

Management has evaluated subsequent events through October 30, 2019 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.

Required Supplementary Information

**STATE OF NEW MEXICO
HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUDGETARY BASIS
OPERATIONAL - P505
FOR THE YEAR ENDED June 30, 2019**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ 9,964,100	\$ 11,413,438	\$ 9,592,639	\$ (1,820,799)
Other Gifts and Grants	469,200	469,200	226,592	(242,608)
Miscellaneous Revenue	-	-	4,986	4,986
Other Fees	60,000	85,000	112,750	27,750
Total Revenues	<u>10,493,300</u>	<u>11,967,638</u>	<u>9,936,967</u>	<u>(2,030,671)</u>
EXPENDITURES				
Personnel Services & Employee Benefits	3,935,700	3,866,600	3,806,820	59,780
Contractual Services	1,652,900	2,093,050	1,724,708	368,342
Other	17,535,800	18,639,088	16,673,748	1,965,340
Total Expenditures	<u>23,124,400</u>	<u>24,598,738</u>	<u>22,205,275</u>	<u>2,393,463</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(12,631,100)</u>	<u>(12,631,100)</u>	<u>(12,268,308)</u>	<u>362,792</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	12,303,000	12,303,000	12,303,000	-
Other financing source	11,622,100	11,622,100	11,531,645	(90,455)
Reversions to State General Fund	-	-	(124,399)	(124,399)
Operating Transfers Out	(11,294,000)	(11,294,000)	(11,294,000)	-
Total Other Financing Sources and Uses	<u>12,631,100</u>	<u>12,631,100</u>	<u>12,416,246</u>	<u>(214,854)</u>
Net Change in Fund Balance (Budgetary and GAAP basis)			<u>\$ 147,938</u>	

**STATE OF NEW MEXICO
HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL BUDGETARY BASIS
OPERATIONAL - P505 Z-CODE
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Z Code ZC5619 *				
Expenditures				
Other	\$ 30,000	\$ 30,000	\$ 29,978	\$ 22
Other Financing Sources (Uses)				
Special Appropriation	30,000	30,000	-	30,000
Net change in fund balances	\$ -	\$ -	\$ (29,978)	\$ 29,978
Z Code ZD141 *				
Expenditures				
Other	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	30,000	30,000	30,000	-
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Z Code ZD9142 *				
Expenditures				
Other	\$ 150,000	\$ 150,000	\$ -	\$ 150,000
Other Financing Sources (Uses)				
Special Appropriation	150,000	150,000	150,000	-
Net change in fund balances	\$ -	\$ -	\$ 150,000	\$ (150,000)
Z Code ZD9143 *				
Expenditures				
Other	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	200,000	200,000	200,000	-
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Z Code ZD9472 *				
Expenditures				
Other	\$ 232,000	\$ 232,000	\$ -	\$ 232,000
Other Financing Sources (Uses)				
Special Appropriation	232,000	232,000	232,000	-
Net change in fund balances	\$ -	\$ -	\$ 232,000	\$ (232,000)

**STATE OF NEW MEXICO
HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL BUDGETARY BASIS
OPERATIONAL - P505 Z-CODE
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Z Code ZD9474 *				
Expenditures				
Other	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	50,000	50,000	50,000	-
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Z Code ZD9475 *				
Expenditures				
Other	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	50,000	50,000	50,000	-
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Z Code ZD9476 *				
Expenditures				
Other	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	100,000	100,000	100,000	-
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Z Code ZD9477 *				
Expenditures				
Other	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	150,000	150,000	150,000	-
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Z Code ZD9478 *				
Expenditures				
Other	\$ 120,000	\$ 120,000	\$ 120,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	120,000	120,000	120,000	-
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total change in fund balances total P505 Z-Codes (Budgetary and GAAP basis)			<u>\$ 352,022</u>	

* Multi year appropriation

**STATE OF NEW MEXICO
HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUDGETARY BASIS
STUDENT FINANCIAL AID - P506
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Federal Grants	\$ -	\$ 300,000	\$ -	\$ (300,000)
Interest on Investments	-	-	583,805	583,805
Interest on Loans	-	-	124,514	124,514
Miscellaneous Revenue	-	-	835,173	835,173
Total Revenues	<u>-</u>	<u>300,000</u>	<u>1,543,492</u>	<u>1,243,492</u>
Fund balance	<u>-</u>	<u>2,100,000</u>		
EXPENDITURES				
Other	<u>64,193,200</u>	<u>66,593,200</u>	<u>64,189,034</u>	<u>2,404,166</u>
Total Expenditures	<u>64,193,200</u>	<u>66,593,200</u>	<u>64,189,034</u>	<u>2,404,166</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(64,193,200)</u>	<u>(66,293,200)</u>	<u>(62,645,542)</u>	<u>3,647,658</u>
OTHER FINANCING SOURCES (USES)				
General Fund Appropriation	22,193,200	22,193,200	22,193,200	-
Lottery Proceeds	<u>42,000,000</u>	<u>42,000,000</u>	<u>43,239,323</u>	<u>1,239,323</u>
Total Other Financing Sources and Uses	<u>64,193,200</u>	<u>64,193,200</u>	<u>65,432,523</u>	<u>1,239,323</u>
Net Change in Fund Balance (Budgetary and GAAP basis)			<u>\$ 2,786,981</u>	

**STATE OF NEW MEXICO
HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUDGETARY BASIS
STUDENT FINANCIAL AID - P506 Z-CODE
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Z Code ZB0546 *				
Expenditures				
Other	\$ 6,250	\$ 6,250	\$ 6,250	\$ -
Other Financing Sources (Uses)				
Special Appropriation	6,250	6,250	-	(6,250)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,250)</u>	<u>\$ (6,250)</u>
Z Code ZC5621 *				
Expenditures				
Other	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	4,000,000	4,000,000	-	(4,000,000)
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,000,000)</u>	<u>\$ (4,000,000)</u>
Z Code ZD1210 *				
Expenditures				
Other	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ -
Other Financing Sources (Uses)				
Special Appropriation	10,000,000	10,000,000	20,000,000	10,000,000
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>
Z Code ZD9139 *				
Expenditures				
Contract	\$ 2,500	\$ 2,500	\$ -	\$ 2,500
Other	47,500	47,500	-	47,500
	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>
Other Financing Sources (Uses)				
Special Appropriation	50,000	50,000	50,000	-
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Net change in fund balances total P506 Z-Codes (Budgetary and GAAP basis)			<u>\$ 6,043,750</u>	

* Multi year appropriation

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

1) Budgetary Basis of Accounting

Budgets are not adopted on a basis consistent with GAAP. The annual appropriated budget is legally enacted and provided for a legal level of control at the appropriation program level (A-Code, P-Code and Z-Code) and includes various funds.

Supplementary Information

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2019

General Fund

The Department's General Fund (SHARE #91000) is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. This is a reverting fund pursuant to the annual State General Appropriation Act.

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

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are restricted to expenditures for specific purpose.

Teacher Preparation Affordability Scholarship Fund (SHARE Fund #20760) - This fund was created to provide financial aid for students who want to become teachers. Laws 2019, Chapter 193 created the Teacher Preparation Affordability Scholarship Fund. Pursuant to Laws 2019, Chapter 271 (General Appropriation Act), \$10 million transferred was from the teacher loan repayment fund (SHARE Fund #21600, Dept. #6500) into this fund. Appropriations to the fund are directed to public postsecondary institutions to award need-based scholarships that fund living expenses, tuition, fees, books, and course supplies for students enrolled or enrolling in an educator preparation program in New Mexico. Priority is given to students who are English learners (ELs), minority students, and students who declare an intent to teach in a high-need teacher position as defined by the Public Education Department (PED). This fund is nonreverting to the State General Fund.

Financial Aid Fund (SHARE Fund #21600) – All financial aid type programs are combined into the Financial Aid Programs' Combined Statements of Revenue and Expenditures – Budget and Actual (Non-GAAP budgetary basis). Budget comparison by individual programs is presented as Additional Information – Supporting Schedules. This fund includes a roll up of the following departments:

Allied Health Services Student Loan Fund (SHARE Fund #21600 Dept. #3100) – The purpose of this program is to meet the emergency currently existing from the shortage of allied health professionals in under-served areas of the state by increasing the number of practitioners in rural areas through a program of loans for allied health students. Each applicant declares his intent to practice his allied health profession within one of the areas of the state designated as an under-served area by the Health Professions Advisory Committee, which was established and organized by the Department (21-22C, NMSA 1978). Per Section 21-22C-8, money appropriated to the fund is nonreverting to the State General Fund.

Medical Student Loan Fund (SHARE Fund #21600 Dept. #3200) – The Medical Student Loan Fund was created to increase the number of medical doctors in under-served areas of the state which have experienced shortages of medical doctors, by granting loans to medical students (21-22,

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
MAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2019

Financial Aid Fund (SHARE Fund #21600) - continued

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 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.

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Financial Aid Fund (SHARE Fund #21600) - continued

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

Health Professional Loan Repayment Program (SHARE Fund #21600 Dept. #3700 and #3800) – The State and Federal Health Professional Education Loan Repayment Programs are incentive programs designed to improve the recruitment and retention of primary medical care providers in under-served portions of New Mexico. Awards will be made to primary medical care providers serving in designated under-served areas, with priority given to providers located at community-based primary care centers. Awards must be used to pay for an individual’s medical student loans. Medical care personnel eligible for loan repayment awards include physicians (both MD and DO), nurse practitioners, nurse midwives, physician’s assistants, and allied health service professionals. (21-22D, NMSA 1978). Per Section 21-22D-8, money appropriated to the fund is nonreverting to the State General Fund.

Graduate Fellowship Fund (SHARE Fund #21600 Dept. #3900) – This fellowship program was established by the Legislature to increase enrollment in graduate education. Fellows receive an award of \$600 per month up to 12 months per year (21-21G, NMSA 1978). Per Section 21-21G-9, money appropriated to the fund is nonreverting to the State General Fund.

Endowed Merit Scholars (SHARE Fund #21600 Dept. #4000) – The amount earned on the investment of the Endowed Merit Scholars Private Purpose Trust Fund (SHARE Fund #88100) is expended from this sub-fund to provide legislative endowment scholarships to students at public post-secondary educational institutions pursuant to the Legislative Endowment Scholarship Act. The monies to cover these expenditures are transferred from the Endowed Merit Scholars Fund (SHARE Fund #88100). Per Section 21-21J-8, money appropriated to the fund is non-reverting to the State General Fund.

Work Study Program Fund (SHARE Fund #21600 Dept. #4100) – The Work Study Program Fund was created to provide a work study program for students at post-secondary educational institutions. Appropriations have been provided to the Department for the purpose of carrying out the provisions of the Work Study Act. At least one-third of the awards are to be made to needy resident students, and the Work Study Act provides that the employer pay at least 20% of the wages (21-21B, NMSA 1978). Per Section 21-21B-4, money appropriated to the fund is nonreverting to the State General Fund.

New Mexico Scholars (SHARE Fund #21600 Dept. #4200) – The purposes of this act is to encourage New Mexico students to attend college in New Mexico. The scholarships shall be in an amount sufficient to pay for tuitions, fees, and books for an academic year, for a period not to exceed four years (21-21H, NMSA 1978). Per Section 21-2H-9, money appropriated to the fund is nonreverting to the State General Fund.

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.

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Financial Aid Fund (SHARE Fund #21600) - continued

State Student Incentive Grants Fund (SHARE Fund #21600 Dept. #4500) – The State Student Incentive Program Fund accounts for the transactions of the State Student Incentive Grant Program. Federal matching monies are provided through the United States Department of Health, Education and Welfare under the authority of Title IV, Part A, Subpart 3 of the Higher Education Act of 1965, as amended. Monies in this fund are used to provide initial and continuation student grants to undergraduates with substantial financial need for attendance at public and private post-secondary education institutions based upon criteria adopted by the Department. The Department is required to report this program as a separate fund by federal contract. Money in the fund shall not revert to the State General Fund per 5.7.9 NMAC.

New Mexico Student Incentive Federal Grants (LEAP/SLEAP Federal Fund (SHARE Fund #21600 Dept. #4600) – Program fund accounts for the federal portion of the LEAP/SLEAP program. Monies in this fund are used to provide initial and continuation student grants to undergraduates with substantial financial need for attendance at public and private post-secondary education institutions based on criteria adopted by the Department. This federal portion is separated from state funds as required by the federal contract. The Department has Maintenance of Effort requirements to maintain level of funding.

Vietnam Veteran's Scholarship Fund (SHARE Fund #21600 Dept. #4700) – The Vietnam Veteran's Scholarship Fund was established to reimburse educational institutions for tuition payments for Vietnam Veteran undergraduates and master degree post-secondary students for tuition and fee costs on a "first come, first served" basis (21-21E, NMSA 1978). Per Section 21-21E-1, money appropriated to the fund is 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).

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Financial Aid Fund (SHARE Fund #21600) - continued

College Access Challenge Grant (SHARE Fund #21600 Dept. #6000) – Program fund accounts for the federal College Access Challenge Grant Award. The purpose of the College Access Challenge Grant Program (CACGP) is to foster partnerships among federal, state, and local governments and philanthropic organizations through matching challenge grants that are aimed at increasing the number of low-income students who are prepared to enter and succeed in post-secondary education.

Pathways Scholarship (SHARE Fund #21600 Dept. #6100) – Program fund accounts for the Non-Federal matching requirement to the College Access Challenge Grant. The program gives low income, high achieving first time freshman monetary support during their first semester at college.

PSL Loan Repayment (SHARE Fund #21600 Dept. #7000) – The purpose of the Public Service Law Loan Repayment Act (21-22F-1 NMSA 1978) is to improve access to the justice system in New Mexico by increasing the number of attorneys in public service employment through a legal education loan repayment program.

Merit Based Scholarships Fund (SHARE Fund 21600 Dept. #5400) – This fund accounts for Merit Scholarships which are funded by the Endowed Merit Scholars Private Trust Fund.

Lottery Tuition Fund (SHARE Fund #63700) – The purpose of this fund is to provide monies for distribution to New Mexico’s public college educational institutions to provide tuition assistance for New Mexico’s resident undergraduates (6-24-23 NMSA 1978). Net receipts from the New Mexico Lottery Authority are deposited in this fund and then transferred to the Lottery Tuition (SHARE Fund #21600, 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 to the State General Fund.

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 to the State General Fund.

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Capital Projects Fund

Capital Projects FY2011 (SHARE Fund #89200) – The purpose of this fund is to account for capital project appropriations made to the Department for post-secondary educational institutions and special schools. The fund is authorized by The Legislature of the State of New Mexico, 49th Legislature, 2nd Special Session, Laws 2010, Chapter 4, House Bill 5, as amended. Monies include general obligation bonds and severance tax bonds. The projects appropriated to this fund have multiple-year budgets. Funds not utilized are rolled forward to the subsequent fiscal year.

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Nonmajor Funds

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.

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 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 other federal funding for fiscal years 2018 and thereafter. This fund is nonreverting to the State General Fund.

College Affordability Scholarship (SHARE Fund #21700) – The purpose of this fund is created in the State Treasury. The fund consists of appropriations, gifts, grants, donations and income from investment of the fund. The fund shall be administered by the Department for distributions to public, post-secondary educational institutions that meet or exceed performance targets for freshmen enrollment and persistence and graduation rates, including minority students. Per Section 21-1-27-3, money appropriated to the fund is nonreverting to the State General Fund.

Grow Your Own Teachers Fund (Share Fund #20840) - Laws of 2019 Chapter 279 created the Grow Your Own Teachers Act, seeks to provide opportunities for educational assistants to pursue careers in teaching in New Mexico by providing scholarship opportunities for educational assistants who may want to attend a public post-secondary educational institution in New Mexico to earn a bachelor's degree in education. The program provides for professional leave and scholarship awards to qualified educational assistants. The scholarship is intended to help defray the educational expenses charged by the institution including tuition, fees, books and course supplies. This 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.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NONMAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2019

Nonmajor Funds - continued

Special Revenue Funds - continued

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.

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 2019 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.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NONMAJOR FUND AND DEPARTMENT GOVERNMENTAL DESCRIPTIONS
JUNE 30, 2019**

Nonmajor Funds - continued

Special Revenue Funds - continued

Legislative Endowment Scholarship (SHARE Fund #67970) – The purpose of this fund is to record monies earned on the investment of the Legislative Endowment Scholarship Fund. This amount is for the purpose of providing legislative endowment scholarships to students at public post-secondary educational institutions pursuant to the Legislative Endowment Scholarship Act. The monies earned and recorded in this fund are transferred to the Endowed Merit Scholars (SHARE Fund #21600, Dept. 4000) for expenditures pursuant to the Legislative Endowment Scholarship Act. Interest earned on the State Student Incentive Grant Account is also deposited to this fund to be used to cover any shortfall in financial aid programs. Money appropriated to the fund is nonreverting to the State General Fund.

American Recovery and Reinvestment Act (SHARE Fund #89000) – To account for funding programs authorized by the U.S. Department of Education’s Grant Administration to supplement phase II of public institutions of higher education to ensure that the state will maintain the state’s support for public higher education for each of fiscal years 2009, 2010, 2011 at least at the respective levels of such support for fiscal year 2006. This fund is non-reverting. The American Recovery and Reinvestment Act fund had no activity in fiscal year 2019 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.

Capital Projects Fund

Capital Projects Fund (SHARE Fund # 93100) – The purpose of this fund is to account for capital outlay funding appropriated by the New Mexico Legislature to the Department for public post-secondary educational institutions, tribal and special schools. This fund includes general fund appropriations authorized by the Legislature of the State of NM, 54th Legislature, 1st Session, Laws of 2019, Chapter 277. The general fund appropriations accounted for within this fund are budgeted as multi-year appropriations with multiple year budgets. Funds not utilized are rolled forward to the subsequent fiscal year up to date of reversion.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	ABE Instructional Materials-10990	Federal Funds - 12150	Grow Your Own Teachers - 20840	College Affordability - 21700	College Goal Sunday Grant - 29200
ASSETS					
State General Fund Investment Pool (SGFIP)	\$ 3	\$ -	140,000	\$ 203,323	\$ 8,916
Federal grants receivable	-	66,400	-	-	-
Total Assets	<u>\$ 3</u>	<u>\$ 66,400</u>	<u>\$ 140,000</u>	<u>\$ 203,323</u>	<u>\$ 8,916</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Voucher payable	\$ -	\$ 33,200	\$ -	\$ 99,109	\$ -
Interest in SGFIP overdraft	-	58,200	-	-	-
Payroll benefits & taxes payable	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>91,400</u>	<u>-</u>	<u>99,109</u>	<u>-</u>
Fund balances:					
Restricted for:					
Special purposes	3	-	140,000	104,214	8,916
Unassigned:					
Unassigned	-	(25,000)	-	-	-
Total Fund balances	<u>3</u>	<u>(25,000)</u>	<u>140,000</u>	<u>104,214</u>	<u>8,916</u>
Total Liabilities and Fund Balances	<u>\$ 3</u>	<u>\$ 66,400</u>	<u>\$ 140,000</u>	<u>\$ 203,323</u>	<u>\$ 8,916</u>

See Independent Auditor's Report.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

Post-Secondary Educational Institution- 34400	Faculty Endowment - 47900	Higher Education Performance - 54500	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 67970	Capital Projects - 93100	Total Governmental Funds
\$ 201,186	\$ 668	\$ 2,174	\$ 600	\$ 729,792	4,469,650	\$ 5,756,312
-	-	-	-	-	-	66,400
<u>\$ 201,186</u>	<u>\$ 668</u>	<u>\$ 2,174</u>	<u>\$ 600</u>	<u>\$ 729,792</u>	<u>\$ 4,469,650</u>	<u>\$ 5,822,712</u>
\$ 868	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,177
-	-	-	-	-	-	58,200
7,051	-	-	-	-	-	7,051
<u>7,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>198,428</u>
193,267	668	2,174	600	729,792	4,469,650	5,649,284
-	-	-	-	-	-	(25,000)
<u>193,267</u>	<u>668</u>	<u>2,174</u>	<u>600</u>	<u>729,792</u>	<u>4,469,650</u>	<u>5,624,284</u>
<u>\$ 201,186</u>	<u>\$ 668</u>	<u>\$ 2,174</u>	<u>\$ 600</u>	<u>\$ 729,792</u>	<u>\$ 4,469,650</u>	<u>\$ 5,822,712</u>

See Independent Auditor's Report.

**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, 2019**

	ABE Instructional Materials-10990	Federal Funds - 12150	Grow Your Own Teachers - 20840	College Affordability - 21700	College Goal Sunday Grant - 29200
REVENUES					
Federal grants	\$ -	\$ 257,924	\$ -	\$ -	\$ -
Other licenses and permits	-	-	-	-	-
Interest on investments	-	-	-	-	261
Miscellaneous revenue	-	-	-	-	-
Total Revenues	<u>-</u>	<u>257,924</u>	<u>-</u>	<u>-</u>	<u>261</u>
EXPENDITURES					
Personnel services & employee benefits	-	6,567	-	-	-
Contractual services	-	-	-	-	-
Other	120,245	251,357	-	99,109	-
Total Expenditures	<u>120,245</u>	<u>257,924</u>	<u>-</u>	<u>99,109</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(120,245)</u>	<u>-</u>	<u>-</u>	<u>(99,109)</u>	<u>261</u>
OTHER FINANCING SOURCES (USES)					
General Fund Appropriation	-	-	140,000	-	-
Other financing source	120,245	-	-	100,000	-
Total Other Financing Sources and Uses	<u>120,245</u>	<u>-</u>	<u>140,000</u>	<u>100,000</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>140,000</u>	<u>891</u>	<u>261</u>
Fund Balances - beginning	<u>3</u>	<u>(25,000)</u>	<u>0</u>	<u>103,323</u>	<u>8,655</u>
Fund Balances - ending	<u>\$ 3</u>	<u>\$ (25,000)</u>	<u>\$ 140,000</u>	<u>\$ 104,214</u>	<u>\$ 8,916</u>

See Independent Auditor's Report.

**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, 2019**

Post-Secondary Educational Institution- 34400	Faculty Endowment - 47900	Higher Education Performance - 54500	Program Development Enhancement - 78200	Legislative Endowment Scholarship - 67970	Capital Projects - 93100	Total-Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257,924
339,342	-	-	-	-	-	339,342
-	20	64	18	-	-	363
-	-	-	-	-	-	-
<u>339,342</u>	<u>20</u>	<u>64</u>	<u>18</u>	<u>-</u>	<u>-</u>	<u>597,629</u>
142,919	-	-	-	-	-	149,486
14,370	-	-	-	-	-	14,370
34,115	-	-	-	-	-	504,826
<u>191,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>668,682</u>
<u>147,938</u>	<u>20</u>	<u>64</u>	<u>18</u>	<u>-</u>	<u>-</u>	<u>(71,053)</u>
-	-	-	-	-	4,469,650	4,609,650
-	-	-	-	-	-	220,245
-	-	-	-	-	4,469,650	4,829,895
<u>147,938</u>	<u>20</u>	<u>64</u>	<u>18</u>	<u>-</u>	<u>4,469,650</u>	<u>4,758,842</u>
45,329	648	2,110	582	729,792	-	865,442
<u>\$ 193,267</u>	<u>\$ 668</u>	<u>\$ 2,174</u>	<u>\$ 600</u>	<u>\$ 729,792</u>	<u>\$ 4,469,650</u>	<u>\$ 5,624,284</u>

See Independent Auditor's Report.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF CAPITAL OUTLAY APPROPRIATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2019**

	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, 2019
LCC VOC ED COMPLEX RENOVATE	GOB13 12-1244	6/30/2016	\$ 4,000,000	\$ (3,846,172)	\$ -	\$ (153,828)	\$ -	\$ -
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	(57,625)	-	(33)	-	342
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)	(1)	-	-
HED CNMCC SMITH BRASHER HALL RENOVATE	GOB15 14-1296	6/30/2018	10,000,000	(9,900,000)	(100,000)	-	-	-
HED NMJC HEALTH & WELLNESS LEARNING CENTER	GOB15 14-1298	6/30/2018	5,000,000	(4,950,000)	(50,000)	-	-	-
HED LCC SATELLITE CAMPUSES REN-SANTA ROSA/SPRI	GOB15 14-1299	6/30/2018	1,380,000	(1,332,496)	(13,800)	(33,704)	-	-
HED MCC ROOF & CRITICAL INFRA IMPROVE	GOB15 14-1300	6/30/2018	650,000	(649,422)	-	(578)	-	-
HED SJC SCHOOL OF SCIENCE, MATH & ENGINEERING	GOB15 14-1301	6/30/2018	4,000,000	(3,960,000)	(40,000)	-	-	-
HED SFCC CRITICAL INFRA IMPROVE	GOB15 14-1302	6/30/2018	2,000,000	(2,000,000)	-	-	-	-
*18 SFCC ALT ENERGY CLASSROOM/LAB SPACE IMPROVE	STB14A 14-2115	6/30/2018	240,000	(49,768)	(2,400)	-	(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)	-	-	(59,130)	121,752
NMJC ALLIED HEALTH BUILDING	STB15A 15-0961	6/30/2019	705,000	(583,886)	(7,050)	-	(114,064)	-
*18 NAVAJO TECH UNIV HEALTH/SECURITY/SAFETY IMPROV	STB15A 15-0962	6/30/2019	535,000	-	-	-	(534,995)	5
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	-	-	-	(45,945)	654,055
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	(794,149)	-	-	(5,851)	-
SFCC AUTOMOTIVE FACILITY	STB15A 15-0971	6/30/2019	90,000	(89,999)	-	-	-	1
SFCC HYDROPONIC/AQUAPONIC GREENHOUSES & ED FCLTY	STB15A 15-0972	6/30/2019	240,000	(237,600)	(2,400)	-	-	-
LCC VEHICLES	STB16A A2592	6/30/2018	45,000	(44,287)	-	(713)	-	-
SFCC PLANT OPERATIONS & MAINTENANCE IMPROVE	STB16A A2593	6/30/2020	50,000	(20,709)	-	-	-	29,291
*18 SFCC AUTO EQUIPMENT PURCHASE & INSTALL	STB16A A2595	6/30/2018	245,000	(177,686)	-	-	(67,306)	8
SJC DOOR LOCK SYSTEM	STB18A C2678	6/30/2022	255,854	-	-	-	(116,326)	139,528
SFCC STUDENT SAFETY UPGRADES	STB18A C2682	6/30/2022	25,000	-	-	-	-	25,000
ACADEMIC LIBRARY RESOURCE ACQUISITIONS	GOB17 A5112	6/30/2021	3,250,000	(1,637,703)	-	-	(1,356,264)	256,033
CNMCC MAX SALAZAR HALL RENOVATE	GOB17 A5117	6/30/2021	13,500,000	(843,134)	(135,000)	-	(5,501,514)	7,020,352
SIPI LIBRARY & BLDGS RENOVATE	GOB17 A5118	6/30/2021	2,000,000	-	(20,000)	-	-	1,980,000
CCC HVAC UPGRADE	GOB17 A5119	6/30/2021	2,000,000	(666,412)	-	-	(1,333,588)	-
NMJC ALLIED HEALTH BLDG	GOB17 A5120	6/30/2021	4,000,000	(3,690,499)	(40,000)	-	(269,501)	-
NAVAJO TECH UNIV LEARNING INNOVATION CTR	GOB17 A5121	6/30/2021	850,000	98,153	(8,500)	-	(152,468)	787,185
MCC SITE PAVING & SIGNAGE IMPROVEMENTS	GOB17 A5122	6/30/2021	2,000,000	-	-	-	(153,121)	1,846,879
SJC INFRA IMPROVE	GOB17 A5123	6/30/2021	2,000,000	(4,768)	-	-	(1,038,813)	956,419
LCC ED MEDIA CTR PHASE 2	GOB17 A5124	6/30/2021	2,000,000	(1,980,000)	(20,000)	-	-	-
IAIA MULTIPRPS FITNESS & PERF ARTS CENTER	GOB17 A5125	6/30/2021	2,000,000	(1,980,000)	(20,000)	-	-	-
SFCC ROOFING & INFRA IMPROVE	GOB17 A5126	6/30/2021	1,500,000	(179,907)	-	-	(239,978)	1,080,115
DINE COLLEGE N SHIPROCK CAMPUS ROADWAY IMPROVE	GOB17 A5127	6/30/2021	500,000	-	-	-	-	500,000
ACADEMIC LIBRARY RESOURCE ACQUISITIONS	GOB19 A5123	6/30/2023	4,000,000	-	-	-	-	4,000,000
CNMCC KEN CHAPPY HALL REN & INFRA UPGRADES	GOB19 C5082	6/30/2023	7,500,000	-	-	-	-	7,500,000
SIPI INFRA IMPROVE	GOB19 A5127	6/30/2023	650,000	-	-	-	-	650,000
CCC ROOF AND PARKING LOT REPLACEMENT & REPAIRS	GOB19 C2678	6/30/2023	1,500,000	-	-	-	-	1,500,000
NMJC INFRASTRUCTURE IMPROVEMENTS	GOB19 C2682	6/30/2023	2,500,000	-	-	-	-	2,500,000
NMJC MCLEAN HALL REN & INFRA IMPROVE	GOB19 C5086	6/30/2023	2,250,000	-	-	-	-	2,250,000
NAVAJO TECH UNIV ACADEMIC BLDG/SITE IMPROVE	GOB19 C5087	6/30/2023	3,700,000	-	-	-	-	3,700,000
MCC BLDG A REN	GOB19 C5088	6/30/2023	800,000	-	-	-	-	800,000
DINE COLLEGE MATH SCIENCE BLDG PH 1	GOB19 C5089	6/30/2023	5,000,000	-	-	-	-	5,000,000
SJC INFRA IMPROVE	GOB19 C4122	6/30/2023	520,000	-	-	-	-	520,000
IAIA ACADEMIC BLDG HVAC & ACCESSIBILITY IMPROV	GOB19 C5076	6/30/2023	800,000	-	-	-	-	800,000
SFCC INFRA IMPROVE	GOB19 C5082	6/30/2023	2,000,000	-	-	-	-	2,000,000
SFCC TRADES & ADVANCED TECH CTR & INFRA IMPROV	GOB19 C5094	6/30/2023	3,000,000	-	-	-	-	3,000,000
			<u>\$ 104,601,382</u>	<u>\$ (42,377,152)</u>	<u>\$ (463,328)</u>	<u>\$ (189,589)</u>	<u>\$(11,176,697)</u>	<u>\$ 50,394,617</u>

See Independent Auditor's Report.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF SPECIAL APPROPRIATIONS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2019**

<u>Description</u>	<u>Authority</u>	<u>Appropriation Period</u>	<u>SHARE Fund</u>	<u>Total Original Appropriation</u>	<u>Current Year Expenditures</u>	<u>Unexpended at June 30, 2019</u>
State General Fund:						
Adult Education	Laws of 2018, Ch 273, 2nd Session, Section 5, Item 119, reverts 2019	6/30/2019	91000	\$ 30,000	\$ 30,000	\$ -
College Affordability Endowment Fund	Laws of 2019, 1st Session, Ch 271, Section 5, Item 109 reverts 2020	6/30/2020	23900	20,000,000	-	20,000,000
Grow Your Teachers Act	Laws of 2019, 1st Session, Ch 279, Section 26 (A)(1), reverts 2020	6/30/2020	20840	140,000	-	140,000
Legal Services for Land Grants, Acequias, Colonias	Laws of 2019, 1st Session, Ch 279, Section 26 (A)(2), reverts 2020	6/30/2020	21600	50,000	-	50,000
Mesa Program	Laws of 2019, 1st Session, Ch 279, Section 26 (A)(4), reverts 2020	6/30/2020	91000	30,000	30,000	-
Grip & Lighting Equipment for Santa Fe Community College	Laws of 2019, 1st Session, Ch 279, Section 26 (A)(5), reverts 2020	6/30/2020	91000	150,000	-	150,000
Upgrade Security Equipment at San Juan College	Laws of 2019, 1st Session, Ch 279, Section 26 (A)(6), reverts 2020	6/30/2020	91000	200,000	200,000	-
Facility Needs Assessment and Institutional Analysis of All Public Post-Secondary Educational Institutions.	Laws of 2019, 1st Session, Ch 278, Section 27 (A)(1), reverts 2022	6/30/2022	91000	232,000	-	232,000
High School Dual Credit Program at Clovis Community College	Laws of 2019, 1st Session, Ch 278, Section 27 (A)(3), reverts 2022	6/30/2022	91000	50,000	50,000	-
To Develop On-Line Programs at Mesalands Community College	Laws of 2019, Ch 278, Section 27 (A)(4), reverts 2022	6/30/2022	91000	50,000	50,000	-
Security Systems Technology at San Juan college	Laws of 2019, 1st Session, Ch 278, Section 27 (A)(5), reverts 2022	6/30/2022	91000	100,000	100,000	-
Program Equipment and Simulation Training Software - San Juan College	Laws of 2019, 1st Session, Ch 278, Section 27 (A)(6), reverts 2022	6/30/2022	91000	150,000	150,000	-
Workforce Training, Health Care and Education Programs New Mexico Junior College	Laws of 2019, 1st Session, Ch 278, Section 27 (A)(7), reverts 2022	6/30/2022	91000	120,000	120,000	-
Legislative Lottery Tuition Scholarship	Laws of 2018, 2nd Session, Ch 73, Section 5 (121), reverts 2019	6/30/2019	63700	4,000,000	4,000,000	-
Total Special Appropriation				<u>\$ 25,302,000</u>	<u>\$ 4,730,000</u>	<u>\$ 20,572,000</u>

See Independent Auditor's Report.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2019**

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	V002A180032	84.002	\$ 4,663,729
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR UP)	P334S12005	84.334	4,670,985
No Child Left Behind FFY16	S367B120028	84.367	191,524
Total U.S. Department of Education Direct			<u>\$ 9,526,238</u>
U.S. Department of Justice			
Direct Programs:			
John R. Justice Prosecutors and Defenders Incentive Act	2011-RJ-BX-0046	16.816	\$ 66,400
Total U.S. Department of Justice			<u>\$ 66,400</u>
			<u>\$ 9,592,638</u>

Program Title	Federal CFDA Number	Federal Amount Provided to Subrecipients
Adult Education - Basic Grants to States	84.002	\$ 3,904,636
GEAR-UP	84.334	2,844,722
No Child Left Behind	84.367	107,685
Total provided to Subrecipients		<u>\$ 6,857,043</u>

See Independent Auditor's Report and Notes to the Schedule of Expenditures of Federal Awards.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER SUPPLEMENTARY INFORMATION - (CONTINUED)
JUNE 30, 2019

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 the cost principles contained 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 CFDA numbers listed were verified on beta.sam.gov.

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 \$6,857,043. The agencies are listed on the following page.

See Independent Auditor's Report.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER SUPPLEMENTARY INFORMATION - (CONTINUED)
JUNE 30, 2019**

5) **Subrecipients – continued**

<u>Subrecipients Name</u>	<u>Pass through Funds</u>
Adult Education	
Albuquerque Adult Learning Center Inc	\$ 81,501
Catholic Charities Central NM	195,917
Central New Mexico Community College	389,405
Clovis Community College	101,751
Dine College	184,487
Eastern New Mexico University - Roswell	263,134
Luna Technical Institute	52,076
Mealands Community College	48,737
New Mexico Corrections Department	289,524
New Mexico Junior College	91,658
NMAEA New Mexico Adult Education Assoc	324,225
Northern New Mexico Adult Education Assoc	74,984
Regents of New Mexico State University	596,836
San Juan College	158,947
Santa Fe Community College	352,657
Southwestern Indian Polytechnic Inst	54,905
The University of New Mexico	571,654
Western New Mexico University	72,238
	<u>\$ 3,904,636</u>
Gear Up	
Bernalillo Municipal School	\$ 369,714
Central Consolidated Schools #22	209,784
Grants/Cibola County School	243,285
Jemez Mtn School Dist No 53	199,090
Jemez Valley Public Schools	209,498
Los Lunas Schools	330,746
Mora Independent Schools	270,955
Pecos Independent Schools	257,826
Penasco Independent School District	326,723
Santa Fe Public Schools	235,964
Walatowa Charter High School	191,137
	<u>\$ 2,844,722</u>

See Independent Auditor's Report.

STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER SUPPLEMENTARY INFORMATION - (CONTINUED)
JUNE 30, 2019

5) **Subrecipients – continued**

<u>Subrecipients Name</u>	<u>Pass through Funds</u>
No Child Left Behind	
Eastern New Mexico University	\$ 28,399
New Mexico Highlands University	41,404
New Mexico Institute of Mining & Tech	7,443
Regents of New Mexico State University	30,439
	<u>\$ 107,685</u>
 Total Subrecipients	 <u><u>\$ 6,857,043</u></u>

See Independent Auditor's Report.



State of New Mexico Office of the State Auditor

CONSTITUENT SERVICES
(505) 476-3821

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. Catherine O'Neill, Cabinet Secretary
New Mexico Higher Education Department
Santa Fe, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, of the State of New Mexico Higher Education Department (Department), as of and for the year ended June 30, 2019, 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, 2019.

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 deficiency 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001, 2019-001 and 2019-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that are required to be reported per Section 12-6-5 NMSA 1978, that we have described in the Section 12-6-5 NMSA 1978 Findings Schedule as items 2015-002, 2016-005, 2016-006 and 2018-002, and 2019-002.

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, 2019



State of New Mexico Office of the State Auditor

CONSTITUENT SERVICES
(505) 476-3821

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

Dr. Catherine O'Neill, Cabinet Secretary
State of New Mexico
Higher Education Department
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Higher Education Department's (Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the year ended June 30, 2019. 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, 2019.

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. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-002 that we consider to be a significant deficiency.

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

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

Office of the State Auditor

Office of the State Auditor
Santa Fe, New Mexico
October 30, 2019

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

PRIOR YEAR FINDINGS

Financial Statement Findings

2010-001 Entity-Level Controls over Financial Reporting – Repeated and modified
2018-001 Loan for Service- Repeated and modified

Federal Award Findings

None

Section 12-6-5 NMSA 1978 Findings

2015-002 Untimely Deposit of Cash – Repeated and modified
2016-005 Travel and Per Diem – Repeated and modified
2016-006 Use of State Issued Gas Credit Cards – Resolved
2018-002 Payroll Internal Control- Repeated and modified

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

Section I

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? | Yes |
| 2. Type of auditor's report issued on compliance for major program | |
| | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? | |
| | Yes |

4. Identification of Major Programs:

<u>Program Name</u>	<u>CFDA Number</u>
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Adult Education	84.002
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5. The threshold for distinguishing Types A & B programs:	\$750,000
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6. The Department was determined to be a low-risk auditee?	No
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**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

Section II

FINANCIAL STATEMENT AUDIT FINDINGS

PRIOR YEAR FINDINGS

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

CONDITION

HED does not currently have an effective internal control structure over financial close and reporting, including effective monitoring of accounts, affecting the accuracy of financial reporting. The following items were noted during our testwork:

- A reversion due to the state general fund was not completed by the statutory due date. HED did not have a process in place to accurately identify the amount due state general fund in a timely manner. An adjustment of \$124,399 was recorded and included in the financial statements to increase due to state general fund and reversion expenditures.
- The allowance for loans and interest receivable provided by management did not include accounts for individuals that are deceased or disabled. An adjustment of \$147,734 was recorded and included in the financial statements to increase miscellaneous expense and allowance for doubtful accounts.
- The investment account was not completely reconciled at fiscal year end by management. An adjustment in the amount of \$90,119 was recorded and included in the financial statements to increase long-term investments for the Endowed Merit Scholars Private-Purpose Trust Fund (SHARE #88100). Professional investment fees, interest from investment and unrealized gain on investment were also increased by appropriate amounts in the fund.
- Federal grants receivable was not completely reconciled at fiscal year end by management. An adjustment in the amount of \$66,400 was recorded and included in the financial statements to increase federal grants receivable and federal grants revenue.

Management did not make progress in resolving this finding during fiscal year 2019.

CRITERIA

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

The Manual of Model Accounting practices (MAPs) FIN 3.8 requires “any unexpended or unencumbered balance remaining in the budget at the end of the fiscal year shall revert to the General Fund or the source fund. Based upon the date requirement set by the General Appropriation Act of each fiscal year, on or about October 31, 20XX is the submission deadline for the *Reversion Notification form* to FCD. At the end of the fiscal year, agencies must not reserve unexpended amounts as part of fund balance. September 30, 20XX is the deadline for entering Operating Transfers in SHARE for reversions due for the previous fiscal year.”

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

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

CRITERIA (CONTINUED)

Section 6-5-2 (C) NMSA 1978 requires state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, Section 2.20.5.8 C (1) NMAC requires agencies to have an internal control structure that exists and is functioning properly.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework is recognized as the leading guidance for designing, implementing and conducting internal control and assessing its effectiveness. An “effective” internal control system includes five components; the control environment, risk assessment, control activities, information, and communication and monitoring. These components should be addressed in entity-level controls related to financial reporting and transaction level processes.

EFFECT

Untimely and/or inaccurate financial reporting could affect federal and state funding. Misstatements due to errors or fraud may go undetected and could affect HED’s ability to accurately estimate budgetary needs for subsequent fiscal years and reversions to the state general fund. HED may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information.

CAUSE

The Administrative Service Division did not dedicate necessary resources to complete all required business processes. The lack of adequate staffing does not allow for a solid integrated control environment or effective monitoring of the activities and risks.

RECOMMENDATION

HED should evaluate the internal control structure within the COSO internal control framework. Specifically, process ownership, reporting lines, and clear channels of communication should be established for all management and employees. Also, management should communicate and document employee responsibilities and expectations, centralize financial functions as much as practical, ensure that positions are filled with persons meeting the qualifications for the particular position, and put policies and procedures in place to ensure that financial reporting objectives are met as required by State statutes.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

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

MANAGEMENT RESPONSE

NMHED will begin implementing a more robust internal accounting control structure that will meet COSO's framework and standards that will effectively include the following components; risk assessment, risk control activities, information, communication and monitoring. The agency has three ASD staff whose tenure is less than a year with NMHED, their duties and responsibilities are being evaluated and defined. The process has been started to develop and refine written procedures to assure Grant Compliance. NMHED will make an effort to fully staff the Administrative Services Department with staff qualified for ASD positions. NMHED will make an effort to recruit an experienced Director of Budget and Finance with commensurate experience who will mentor and train ASD staff to ensure that financial reporting goals are met as required by State statutes. Thus assuring statutory compliance with fund reversion expenditures to the general fund.

This will be the responsibility of the CFO and ASD leadership to implement effective internal control structure and arrange for necessary training.

The process will be fully implemented by June 30th, 2020.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

**2018-001 LOAN FOR SERVICE TRANSACTIONS (SIGNIFICANT DEFICIENCY-
REPEATED AND MODIFIED)**

CONDITION

During our testwork of 75 transactions, 40 loan advances and 35 loan cancellations, related to the financial aid loan for service loans we noted the following:

- The current process for loan cancellations does not include procedures to ensure that aggregate 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 monthly activity is not reconciled or reviewed in the aggregate to ensure that all transactions cancelled for the month were appropriately approved. We also noted one loan cancellation for \$16,320, did not include documentation of review of the amount reduced in the loan tracking system. Participant is under Nursing Loan for Service Program.
- One loan advancement for \$6,000, was disbursed prior to the receipt of the signed loan agreement. The participant is under the Allied Health Loan for Service Program.
- One participant's loan was listed at \$15,000 in SAL Net, however the documentation in the loan file supported a loan balance on \$3,750. The participant is under the Minority Doctoral Loan for Service Program.
- Three participants did not have accurate graduation and/or end of grace period dates input into the loan tracking system. Participants are under the Nursing Loan for Service Program, Nurse Education Loan for Service Program and Teacher Aid Loan for Service Program.

Management has made progress in correcting the condition in fiscal year 2019. The prior year finding noted the review of cancellation transactions were not being clearly documented; the current year finding lists one cancellation transaction without evidence of review. However, HED has not implemented a process to review cancellation transactions in the aggregate or consistently follow internal procedures.

CRITERIA

Section 6-5-2 (C) NMSA 1978 requires state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, Section 2.20.5.8 C (1) NMAC requires agencies to have an internal control structure that exists and is functioning properly.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework is recognized as the leading guidance for designing, implementing and conducting internal control and assessing its effectiveness. An "effective" internal control system includes five components; the control environment, risk assessment, control activities, information, and communication and monitoring. These components should be addressed in entity-level controls related to financial reporting and transaction level processes.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

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

CRITERIA (CONTINUED)

Advancements should not occur prior to the receipt of a signed Loan for service agreement. Section 21-22C-6 D NMAC states, "The loans shall be evidenced by a contract between the student and the commission [department] acting on behalf of the state."

CAUSE

HED has a process to review individual transactions that are cancelled but does not include procedures to evaluation completeness.

HED did not consistently follow its internal procedures for loan advancements and cancellations.

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.

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. HED may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information. Amounts advanced may not be recoverable. Inaccurate graduation and/or end of grace periods may result in loans not being properly monitored. 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 procedures, and update as necessary, to ensure that advancements are not processed until agreements are signed and approved.

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

Develop review procedures, that include reviewing the accuracy of graduation and end of grace period dates input in SAL Net, to help ensure transactions for individuals are processed and monitored appropriately.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

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

MANAGEMENT RESPONSE

HED concurs with this finding. However, it should be noted that advancements for Health Loan for Service programs are paid to the student's institution on behalf of the student. These payments are made in bulk, i.e., one payment for all students within the institution's program. In the case where the advancement was made prior to receiving the agreement this was to prevent other students from experiencing a delay in funding. HED can notify the institution of non-compliance by students and revoke the award, in which case the institution will debit the student's account and remit the award balance back to HED.

Graduation dates are updated automatically by SAL-NET/ECSI when data from the National Student Clearinghouse indicates graduation. Students may exit a program prior to graduation; go into repayment status; then re-enter the program thus causing a discrepancy between graduation date and grace period/repayment date. HED will ensure that graduation dates and grace period dates are updated and verified based on communications with the students or other updates of their status e.g. through Clearinghouse data.

Responsible Position: The Financial Aid Director and staff will reconcile on a monthly basis aggregate cancellation reports and verify they are in agreement with individual cancellation data made by the Financial Aid Program Coordinator.

Responsible Position: Immediate (beginning November 2019).

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

2019-001 CASH DISBURSEMENTS (SIGNIFICANT DEFICIENCY)

CONDITION

During our test work of 40 cash disbursement transactions, we identified the following:

- 10 disbursements, totaling \$2,373, did not include documentation of approval to pay the invoice by an employee responsible for the goods or services received.

CRITERIA

Resources are only to be expended for authorized purposes and adequate internal controls and procedures for cash disbursements must be implemented to ensure compliance. Section 6-5-2 (C) NMSA 1978 requires state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, Section 2.20.5.8 C (1) NMAC requires agencies to have an internal control structure that exists and is functioning properly.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework is recognized as the leading guidance for designing, implementing and conducting internal control and assessing its effectiveness. An “effective” internal control system includes five components; the control environment, risk assessment, control activities, information, and communication and monitoring. These components should be addressed in entity-level controls related to financial reporting and transaction level processes.

EFFECT

Possible improper or inaccurate payment of invoices due to lack of review. The agency’s lack of adherence to internal control policies and procedures may increase the risk of fraud, waste and abuse.

CAUSE

HED did not consistently follow its internal control procedures for cash disbursements.

RECOMMENDATION

Management should communicate and document employee responsibilities and expectations. Management should monitor policies and procedures to ensure that financial reporting objectives are met as required by their internal policies and other State statute requirements.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

2019-001 CASH DISBURSEMENTS (SIGNIFICANT DEFICIENCY) (CONTINUED)

MANAGEMENT RESPONSE

The Administrative Services Department has implemented a new process to have all invoices approved for payment. An approval signature and date are required for all invoice payments, no exceptions. If an invoice is missing an approval signature and/or date, ASD staff will reject the payment voucher to the originator.

Responsible Position: Financial Coordinator Supervisor

Timeline: Immediate implementation of corrective action

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

Section III

FEDERAL AWARD FINDINGS

2019-002 WRITTEN PROCEDURES FOR GRANT COMPLIANCE (SIGNFICANT DEFICENCY)

Federal Award Agency: U.S. Department of Education

Federal Program: Adult Education, CFDA #84.002

Federal Award#/Year: V002A180032/FFY19, V002A170032/FFY18, V00216032 FFY17

CONDITION

During our testwork, we noted HED did not have written procedures required by Uniform Guidance requirements for determining the allowability of costs or payments requested for reimbursements. We did not note any items tested that appeared to be unallowable costs.

CRITERIA

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Section 302, Financial Management states that entities must have written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles and the terms and conditions of the Federal award and written procedures to implement the requirements of Uniform Guidance Section 305 Payment. In addition, Uniform Guidance Section 430, Compensation - personal services states costs of compensation are allowable if they are rendered and conforms to the established written policy of the entity and consistently applied to both Federal and non-Federal activities.

QUESTIONED COSTS

None

CAUSE

HED was unaware of the Uniform Guidance requirements.

EFFECT

HED is not in compliance with Uniform Guidance requirements for allowable cost principles and cash management. HED may lack procedures necessary to prevent or detect intentional or unintentional misstatements of accounting information. Inaccurate financial reporting could affect federal and state funding.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

2019-002 WRITTEN PROCEDURES FOR GRANT COMPLIANCE (SIGNIFICANT DEFICIENCY) (CONTINUED)

RECOMMENDATION

Management should develop written policies and procedures for all federal grants to include the applicable standards required by the Uniform Guidance. Management should provide training as necessary to ensure compliance with applicable requirements.

MANAGEMENT RESPONSE

NMHED will adopt written procedures for determining the allowable of costs in accordance with 2 CFR 200, Section 302, Subpart E-Cost Principles and written procedures to implement Section 305, Payment. Procedures will include assurance that any costs of compensation are allowable only when they conform to established written policy of NMHED and are consistently applied to both Federal and non-Federal activities.

Procedures will include processes for reimbursement, shared costs, compensation, and drawdown.

A team made up of the Financial Coordinator Supervisor of Administrative Services and the Financial Officer and Director of Adult Education will draft the procedures for NMHED adoption. Procedures will be completed by June 30, 2020.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

Section IV

SECTION 12-6-5 NMSA 1978 FINDINGS

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

CONDITION

During our test work of 40 cash receipts we noted the following:

- Four receipts, totaling \$4,508 were not deposited by the next business day.

Management implemented a new cash receipt process and has made progress in resolving this finding. Seven instances totaling \$12,429 were noted in the prior year.

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, 2019**

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

MANGEMENT RESPONSE

The department is continuing to take steps to improve the workflow related to processing checks within the mandated 24 hour time frame as stipulated in Section 6-10-3 NMSA 1978.

The cash deposit functions are primarily done with a desk top deposit system, the digital scanning deposit system is available through Wells Fargo Bank. The scanning system reduces or eliminates valuable staff time needed to physically deposit checks at the bank location, thus reducing the possibility of exceeding the deadline for making deposits.

ASD is sufficiently staffed to be able to handle check collection and deposit functions in a timely manner.

Responsible Position: Financial Coordinator Supervisor

Timeline: Immediate implementation of corrective action

**2016-05 TRAVEL AND PER DIEM (OTHER NONCOMPLIANCE - REPEATED AND
MODIFIED)**

CONDITION

During our test work for compliance with the Mileage and Per Diem Act, we noted the following out of 15 vouchers tested:

- Three travel vouchers, totaling \$1,872, did not contain a memo and/or approval signature from the agency head for mileage and per diem reimbursement exceeding \$1,500 in one year.

We also noted that the HED is tracking and monitoring mileage and per diem reimbursements that exceed \$1,500 in one year for one employee. However, HED does not have a system in place to track or monitor mileage and per diem reimbursements that exceed \$1,500 in one year for the remaining employees. We noted four employees that received per diem reimbursement over \$1,500 during fiscal year 2019 that were not being tracked or monitored for compliance with State statute.

Management provided trainings on topics related to travel and reimbursement and made progress in correcting the prior year finding. The finding reported is a different instance of non-compliance with the Act.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

2016-05 TRAVEL AND PER DIEM (OTHER NONCOMPLIANCE - REPEATED AND MODIFIED) (CONTINUED)

CRITERIA

Per section 10-8-5-H NSMA 1978, “Any person who is not an employee, appointed or elected official of a county or municipality and who is reimbursed under the provisions of the Per Diem and Mileage Act in an amount that singly or in the aggregate exceeds one thousand five hundred dollars (\$1,500) in any one year shall not be entitled to further reimbursement under the provisions of that act until the person furnishes in writing to his department head or, in the case of a department head or board or commission member, to the governor ...an itemized statement on each separate instance of travel covered within the reimbursement, the place to which traveled and the executive, judicial or legislative purpose served by the travel.”

Section 6-5-2 (C) NMSA 1978 requires state agencies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, Section 2.20.5.8 C (1) NMAC requires agencies to have an internal control structure that exists and is functioning properly.

CAUSE

HED did not maintain and follow internal control procedures to ensure compliance with State statutes. .

EFFECT

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

RECOMMENDATION

HED should implement a procedure that ensures compliance with relevant statutes and supports an internal control structure within the COSO internal control framework.

MANAGEMENT RESPONSE

NMHED will implement a training for Department Directors and Staff on travel reimbursement. Topics related to travel reimbursement will include: per diem, actual expenses for meal reimbursement, mileage rate calculation, and emphasis will be given to tracking and monitoring mileage and per diem reimbursements that exceed \$1,500.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

2016-05 TRAVEL AND PER DIEM (OTHER NONCOMPLIANCE - REPEATED AND MODIFIED) (CONTINUED)

MANAGEMENT RESPONSE (CONTINUED)

Management will assign tracking of travel expenses to ASD staff and recirculate the policy and the process of obtaining the Secretary's approval for all travel in excess of \$1,500.

Responsible Position: Chief of Staff/CFO and ASD staff

Timeline: Trainings will be conducted quarterly and tracking of the \$1,500.00 reimbursement limit will be done by ASD staff on a monthly/quarterly basis.

2018-002 PAYROLL DOCUMENTATION (OTHER NONCOMPLIANCE- REPEATED AND MODIFIED)

CONDITION

During our test work of 40 payroll transactions we noted the following:

- One employee file did not contain a signed acknowledgement of the Code of Conduct.
- Two transactions, totaling \$216, did not document approval in the SHAREPOINT leave request system for 8 hours of annual leave and 1.5 hours of sick leave taken by employees.

The prior year finding noted a missing Form I-9, *Employment Eligibility Verification* which was obtained from the employee when the error was discovered. The finding was repeated because the current year finding identified a similar occurrence of missing personnel documentation.

CRITERIA

10-16-11(A) and (B) NMSA 1978 states that each elected statewide executive branch public officer shall adopt a general code of conduct for employees subject to his control. Within thirty days after the general codes of conduct are adopted, they shall be given to and reviewed with all executive and legislative branch officers and employees. All new public officers and employees of the executive branch shall review the employees' general code of conduct prior to or at the time of being hired.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

2018-002 PAYROLL DOCUMENTAION (OTHER NONCOMPLIANCE - REPEATED AND MODIFIED) (CONTINUED)

CRITERIA (CONTINUED)

Per HED's Employee Policies, Leave Request Policy, 11.0, "Annual leave must be requested and approved in advance. Employees requesting annual leave must notify their supervisor by entering their request into the HED SHAREPOINT leave request system...Employees requesting sick leave unexpectedly must contact their supervisor at their earliest opportunity but no later than 30 minutes past the employees' regular starting time. Upon returning to work employees will report the leave taken into the HED SHAREPOINT leave request system."

CAUSE

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

Employees requested leave for the pay period in the SHAREPOINT leave request system, however, the total amount of leave approved by the supervisor for payment did not agree to the SHAREPOINT leave request system.

EFFECT

Noncompliance with the Governmental Conduct Act for Codes of Conduct. Codes of Conduct describe the expectations of employees regarding ethical conduct and may help promote the prevention of fraud, waste and abuse.

Noncompliance with HED's Employee Policies for leave requests.

RECOMMENDATION

Management should develop a process to ensure that proper personnel documentation is maintained. Management should communicate and document employee responsibilities and expectations. Management should monitor policies and procedures to ensure that financial reporting objectives are met as required by their internal policies.

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

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

MANAGEMENT RESPONSE

Management has circulated and received back signed acknowledgements of receipt of Governor Michelle Lujan-Grisham's Code of Conduct from all HED employees, including the employee whose file did not contain a signed acknowledgement. This will be repeated in January 2020.

Management has provided training assistance to enable managers and staff to utilize the Sharepoint system to better coordinate and track leave. Aware that the Sharepoint system is both antiquated and difficult to use, management is in the process of installing a new software program that will better enable reporting and tracking of leave entries. Zoho People is an HR management platform, it has a Leave Management feature that will greatly improve the accuracy of tracking staff leave requests. The Leave Management system is now being configured and tested by NMHED IT Department. The goal is to have it implemented and have staff trained by November 8th, 2019.

HED has requested funding for a human resources staff professional in its FY20 budget request to address difficulties in getting timely assistance and regular management of personnel files through the State Personnel Office.

Responsible Position:

The NMHED general counsel is responsible to circulate and collect Code of Conduct acknowledgements and for hiring a human resources staff person.

The NMHED Director of IT is responsible for the installation and training of the new time and leave tracking system.

Timeline: Pending staff training and phased implementation process should be fully operational by January 2020.



**State of New Mexico
Higher Education Department
Corrective Action Plan
For the Year Ended June 30, 2019**

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2010-001 Entity-Level Controls Over Financial Reporting	NMHED will begin implementing a more robust internal accounting control structure that will meet COSO's framework and standards that will effectively include the following components; risk assessment, risk control activities, information, communication and monitoring. The agency has three ASD staff whose tenure is less than a year with NMHED, their duties and responsibilities are being evaluated and defined. The process has been started to develop and refine written procedures to assure Grant Compliance. NMHED will make an effort to fully staff the Administrative Services Department with staff qualified for ASD positions. NMHED will make an effort to recruit an experienced Director of Budget and Finance with commensurate experience who will mentor and train ASD staff to ensure that financial reporting goals are met as required by State statutes. Thus assuring statutory compliance with fund reversion expenditures to the general fund. This will be the responsibility of the CFO and ASD leadership to implement effective internal control structure and arrange for necessary training.	Chief Financial Officer	June 30, 2020

**State of New Mexico
Higher Education Department
Corrective Action Plan - Continued
For the Year Ended June 30, 2019**

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
<p>2018-001 Loan For Service Transactions</p>	<p>HED concurs with this finding. However, it should be noted that advancements for Health Loan for Service programs are paid to the student's institution on behalf of the student. These payments are made in bulk, i.e., one payment for all students within the institution's program. In the case where the advancement was made prior to receiving the agreement this was to prevent other students from experiencing a delay in funding. HED can notify the institution of non-compliance by students and revoke the award, in which case the institution will debit the student's account and remit the award balance back to HED.</p> <p>Graduation dates are updated automatically by SAL-NET/ECSI when data from the National Student Clearinghouse indicates graduation. Students may exit a program prior to graduation; go into repayment status; then re-enter the program thus causing a discrepancy between graduation date and grace period/repayment date. HED will ensure that graduation dates and grace period dates are updated and verified based on communications with the students or other updates of their status e.g. through Clearinghouse data.</p> <p>The Financial Aid Director and staff will reconcile on a monthly basis aggregate cancellation reports and verify they are in agreement with individual cancellation data made by the Financial Aid Program Coordinator.</p>	<p>Chief Financial Officer and Financial Aid Division Director</p>	<p>June 30, 2020</p>

**State of New Mexico
Higher Education Department
Corrective Action Plan - Continued
For the Year Ended June 30, 2019**

Audit Finding	Management's Corrective Action Plan	Employee Person Responsible	Timeline and Estimated Completion Date
2019-001 Cash Disbursements	The Administrative Services Department has implemented a new process to have all invoices approved for payment. An approval signature and date are required for all invoice payments, no exceptions. If an invoice is missing an approval signature and/or date, ASD staff will reject the payment voucher to the originator.	ASD Financial Coordinator	Immediate Implementation
2019-002 Written Procedures for Grant Compliance	NMHED will adopt written procedures for determining the allowable of costs in accordance with 2 CFR 200, Section 302, Subpart E-Cost Principles and written procedures to implement Section 305, Payment. Procedures will include assurance that any costs of compensation are allowable only when they conform to established written policy of NMHED and are consistently applied to both Federal and non-Federal activities. Procedures will include processes for reimbursement, shared costs, compensation, and drawdown. A team made up of the Financial Coordinator Supervisor of Administrative Services and the Financial Officer and Director of Adult Education will draft the procedures for NMHED adoption.	ASD Financial Officer & Director of Adult Education	June 30, 2020

**STATE OF NEW MEXICO
HIGHER EDUCATION DEPARTMENT
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2019**

EXIT CONFERENCE

An exit conference was conducted on October 30, 2019, in which the contents of this report were discussed with the following:

New Mexico Higher Education Department

Sandra Liggett	General Counsel
Mario Suazo	Chief of Staff/ CFO
Dina Advani	Director of Research and Analysis
Gerald Hoehne	Director of Capital Project
Pascal Buser	Director Private and Post-Secondary Schools
Bogi Malecki	Director of IT
Dr. Harrison Rommel	Director of Financial Aid & Institutional
Francis Bannowsky, J.D	Director of Adult Education
Corine Frankland	Director of GEAR UP
Ale Rodriguez	Financial Analyst Advance

New Mexico Office of the State Auditor

Natalie Cordova, CPA	Deputy State Auditor
Lynette Kennard, CPA, CGFM	Financial Audit Director
Kusum Adhikari	Auditor Supervisor
Leo Dudziak, MBA	Staff Auditor

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.