



NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

# Financial Statements

JUNE 30 | 2019





.....

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**  
*TABLE OF CONTENTS*

Report of Independent Auditors..... 1

Management’s Discussion and Analysis .....4

Statements of Net Position..... 14

Statements of Revenues, Expenses, and Changes  
in Net Position ..... 15

Statements of Cash Flows..... 16

Notes to Financial Statements..... 18

Schedule of Expenditures of Federal Awards.....38

Notes to Schedule of Expenditures of Federal  
Awards .....39

Report of Independent Auditors 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*.....41

Report of Independent Auditors on Compliance for  
The Major Federal Program and Report on  
Internal Control over Compliance Required  
by the Uniform Guidance.....43

Schedule of Findings and Questioned Costs.....45

## **Report of Independent Auditors**

The Board of Directors  
New Mexico Educational Assistance Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of New Mexico Educational Assistance Foundation (the "Foundation"), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 16, 2019 on our consideration of the Foundation'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 solely 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 the effectiveness of the Foundation's 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 Foundation's internal control over financial reporting and compliance.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 16, 2019

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

### Overview

The New Mexico Educational Assistance Foundation (the Foundation) functions as loan servicer to meet the financial needs of New Mexico students seeking post-secondary education. Funding of student loans was achieved through underwritings of tax-exempt and taxable debt securities issued by the Foundation for resale primarily to institutional investors. The Foundation provides the following additional services:

- Collection services for defaulted loans, educational debt and other past due accounts;
- Assessment and collection of late and legal fees on delinquent balances;
- Statewide Higher Education Outreach Plan.

As of June 30, 2019, the Foundation had 71,272 loans outstanding to 21,710 current and former students at a total principal value, net of an allowance of doubtful accounts, of approximately \$371.2 million.

This Management's Discussion and Analysis is required supplementary information under Governmental Accounting Standards Board Statement (GASB) 34. The narrative will focus on changes in results of operations and financial position from the prior year, with emphasis on the current year. Reasons for these changes and economic factors affecting the Foundation's results will be highlighted.

The topics discussed in this Management's Discussion and Analysis, per GASB 34 guidelines, are the following:

- A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide;
- Condensed financial information derived from the financial statements comparing the current year to prior years;
- An analysis of the entity's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations;
- An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund, or its equivalent;
- A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services;
- A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

### I. Brief Discussion of Financial Statements

The financial statements presented herein are the following:

- Statements of Net Position;
- Statements of Revenues, Expenses, and Changes in Net Position;
- Statements of Cash Flows.

The Statement of Net Position summarizes the Foundation's financial position as of the end of the fiscal year. It describes the various classifications of assets, liabilities, and the residual net position. This Statement is distinguished from the other two in that it provides a snapshot of account balances at a particular point in time, as opposed to an accumulation of activity during the period.

The Statement of Revenues, Expenses, and Changes in Net Position illustrate the Foundation's inflows and outflows of financial resources during the year. The accrual of revenue and expense items during the year will affect the year-end balances on the Statement of Net Position. The increase or decrease in net position computed on the Statement of Revenues, Expenses, and Changes in Net Position is added to or subtracted from the beginning net position on the Statement of Net Position to yield ending net position as of the report date.

The Statement of Cash Flows lists the sources and uses of cash during the year, using the direct method. This Statement itemizes the changes in the balance of cash and equivalents from the beginning of the year to year-end. The inflows and outflows of cash during the year help explain the change in the balances of assets and liabilities on the Statement of Net Position.

For internal management reporting purposes, the Foundation segregates financial reporting into two funds – the Debt Fund and the General Fund. The Debt Fund monitors all activity and net position relating to the Federal Family Education Loan Program (FFELP) student loans, the Foundation's alternative student loans, borrower incentive programs offered by the Foundation, and the outstanding debt issued to fund these programs. The General Fund consists of Foundation operating costs and net position, primarily financed by an administrative allowance from the Debt Fund and service fees. Presentation of the two funds discretely helps distinguish the primary function of the Foundation – financing guaranteed FFELP loans – from general and administrative operations.

With the implementation of GASB 34, the focus of the financial statements is on the overall entity. Therefore, the two funds, which do not meet the criteria for reporting as separate funds in the accompanying financial statements, are combined for presentation on this report. The financial statements are presented in a single-column format as enterprise fund business-type activities.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

### II. Condensed Financial Information

Condensed financial information is presented below (in thousands).

	<b>Year Ended June 30</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Capital Assets	\$ 4,696	\$ 4,866	\$ 5,073
Other Assets-Student Loan Receivables	457,851	526,519	613,445
Total Assets	<u>\$ 462,547</u>	<u>\$ 531,385</u>	<u>\$ 618,518</u>
Long-Term Liabilities	\$ 315,081	\$ 365,524	\$ 437,242
Other Liabilities	42,401	60,357	69,877
Total Liabilities	<u>357,482</u>	<u>425,881</u>	<u>507,119</u>
Deferred Inflows of Resources	622	651	2,025
Total Liabilities and Deferred Inflows of Resources	<u>\$ 358,104</u>	<u>\$ 426,532</u>	<u>\$ 509,144</u>
Net Position:			
Invested in Capital Assets	\$ 4,696	\$ 4,866	\$ 5,073
Unrestricted	23,255	23,473	24,473
Restricted	76,492	76,514	79,828
Total Net Position	<u>104,443</u>	<u>104,853</u>	<u>109,374</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 462,547</u>	<u>\$ 531,385</u>	<u>\$ 618,518</u>
	<b>Year Ended June 30</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenues:			
Student Loan Interest Income & Fees	\$ 20,399	\$ 22,210	\$ 24,364
Federal Subsidies	369	(1,711)	(5,011)
Investment Interest Income	962	(2,364)	(5,436)
Loan Servicing & Other Revenue	3,052	2,268	2,296
Total Revenues	<u>\$ 24,782</u>	<u>\$ 20,403</u>	<u>\$ 16,213</u>
Expenses:			
Direct Costs (Recovery) – Federal Family Education Loan Program	\$ 15,959	\$ 18,818	\$ 16,099
Overhead Costs – Federal Family Education Loan Program	5,884	915	1,596
Loan Servicing	3,276	5,190	5,027
Total Expenses	<u>\$ 25,119</u>	<u>\$ 24,923</u>	<u>\$ 22,722</u>
Loss on Equity Method Investment	(73)	-	-
Change in Net Position	<u>\$ (411)</u>	<u>\$ (4,520)</u>	<u>\$ (6,509)</u>
Net Position, Beginning of the Year	<u>104,853</u>	<u>109,375</u>	<u>115,884</u>
Net Position, End of the Year	<u>\$ 104,442</u>	<u>\$ 104,853</u>	<u>\$ 109,375</u>

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

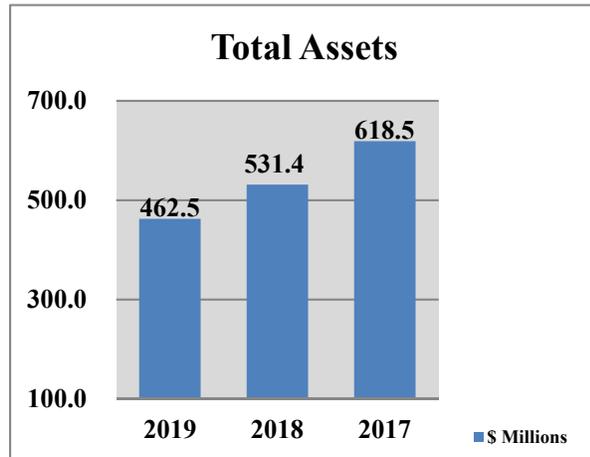
## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

### III. Analysis of Overall Financial Position and Results of Operations

#### Analysis of Financial Position:

The Foundation's Total Assets at June 30, 2019 were approximately \$462.5 million, a decrease of approximately \$68.9 million from the balance at June 30, 2018. Total assets at June 30, 2018 were just over \$531.4 million, a decrease of approximately \$87.1 million over the balance at June 30, 2017. Significant (approximate) changes in total assets components included:

- As of June 30, 2019, there was a reduction of \$67.1 million in student loans receivable, representing a 15% decrease. This decrease was largely due to borrower payments and direct loan consolidations with the United States Department of Education. As of June 30, 2018, there was a reduction of \$65.7 million in student loans receivable, representing a 13% decrease. This decrease was largely due to borrower payments and direct loan consolidations with the United States Department of Education.



- Borrower interest receivable and interest subsidy receivable increased \$1.8 million as of June 30, 2019 from the amount outstanding June 30, 2018 due to an increase in interest rates despite the reduction in the overall portfolio. In 2018, borrower interest receivable and interest subsidy receivable increased \$2.1 million due to an increase in interest rates despite the reduction in the overall portfolio.
- The fair market value of the derivative instrument associated with the 2010-1 Bond increased \$36 thousand and the fair market value of the derivative instrument associated with the 2009 Bond decreased \$125 thousand from the fair market values reported in 2018. The fair market value of the derivative instrument associated with the 2010-1 Bond decreased \$1.5 million and the fair market value of the derivative instrument associated with the 2009 Bond decreased \$1.4 million from the fair market values reported in 2017.
- Short-term investments decreased nearly \$4.6 million from the amount outstanding at June 30, 2018, primarily due to mandatory and voluntary redemptions that occurred during the fiscal year.
- During January, the Foundation invested \$1 million in CRI, Inc., a collection agency within the State of New Mexico. CRI, Inc. realized an operating loss of \$74 thousand during 2019, which reduced the equity investment held by the Foundation by the same amount. Other investments decreased as of June 30, 2018 by \$21.1 million from the amount outstanding at June 30, 2017. This decrease was primarily due to mandatory and voluntary bond redemptions that occurred during the fiscal year.

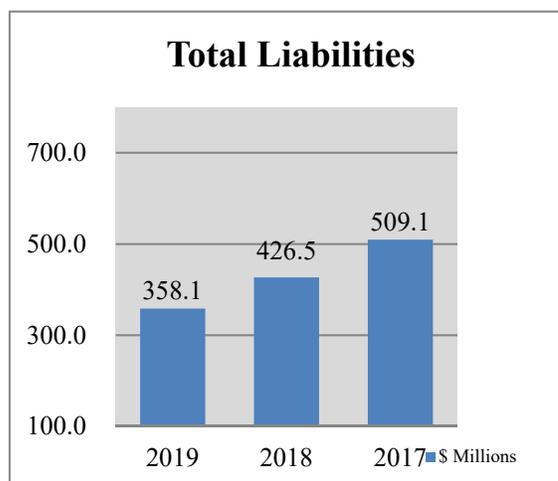
# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

- Cash and cash equivalents increased \$726 thousand over the prior year as of June 30, 2019. Unrestricted cash increased by \$392 thousand due to using the Bank of America line of credit to reimburse NMEAF's purchases of rehabilitated loans from the New Mexico Student Loan Guaranteed Corporation (NMSLGC). Restricted cash increased \$342 thousand due to payments received and pending transfer to investments. As of June 30, 2018, cash and cash equivalents had increased by \$2.0 million. Unrestricted cash decreased by \$2.4 due to the purchase of rehabilitated loans from the NMSLGC Corporation and the Montana Guaranteed Student Loan Program. Restricted cash decreased \$0.35 million due to lower loan receipts received near 2017 year-end, which was pending transfer to investments.
- As of June 30, 2019, student loan late and legal fees, net and other receivable amounts decreased by \$315 thousand due to less litigation within the student loan portfolio. In 2018, student loan late and legal fees, net and other receivable amounts decreased by \$237 thousand due to lower student loan portfolio balances.
- As of June 30, 2019, capital assets had decreased by \$0.2 million primarily due to the depreciation for all assets exceeding the value of new capital assets purchased. Capital assets decreased \$0.2 million due to the depreciation for all assets exceeding the value of new capital assets purchased as of June 30, 2018.

Total liabilities decreased by approximately \$68.4 million to \$358.1 million as of June 30, 2019 as compared to a decrease of approximately \$82.6 million to \$426.5 million as of June 30, 2018. Decreases and increases in liabilities were driven by the following primary changes (in approximate amounts):

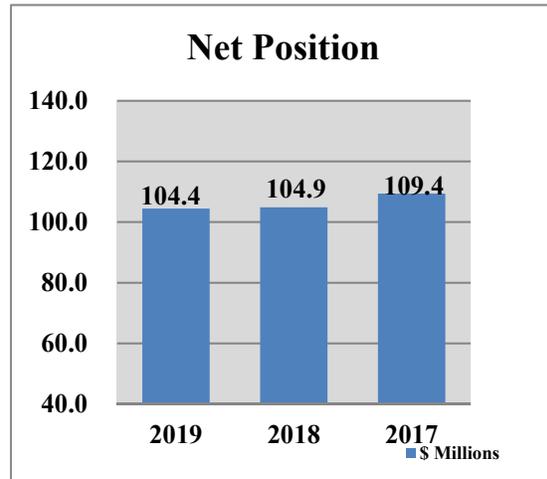
- Current and long-term bonds payable decreased \$56.7 million as of June 30, 2019 from the amount outstanding at June 30, 2018 due to debt retirements. As of June 30, 2018, current and long-term bonds payable decreased by \$86.3 million due to debt retirements during the fiscal year.
- Notes payable decreased by \$11.1 million as of June 30, 2019 as compared to June 30, 2018 due to issuance of the 2018 Bond Indenture to purchase loans out of the Bank of America line of credit. As of June 30, 2018, notes payable increased by \$6.0 million compared to June 30, 2017 due to use of the Bank of America Line of Credit to fund the purchases of the NMSLGC rehabilitation loans.
- In fiscal year 2019, the year-end interest accrual had a decrease of \$0.2 million due to a lower bonds payable balance. In fiscal year 2018, the year-end interest accrual had an increase of \$0.2 million in spite of a lower bonds payable balance because of rising interest rates.
- In fiscal year 2019, other deferred gain decreased \$30 thousand due to a combination of \$241 thousand in premiums on purchased rehabilitated loans that was offset by \$271 thousand of amortized premiums. In fiscal year 2018, the deferred gain on refunded bonds was fully amortized.



# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

- In 2019 and 2018, despite an increase in interest rates, the rates are still low enough to not create enough earnings to produce yields above the restricted amount for all bond issues.
- Accounts payable and accrued liabilities increased \$106 thousand as of June 30, 2019. Special allowance payable decreased \$0.45 million due to a decreasing portfolio of student loans as of June 30, 2019 and higher interest rates. As of June 30, 2018, accounts payable and accrued liabilities decreased by \$25 thousand. Special allowance payable decreased by \$1.1 million due to a decreasing portfolio of student loans and higher interest rates.



Net position decreased by 0.5% to \$104.4 million and net position comprised approximately 22% of total assets at June 30, 2019. Net position decreased by 4% to \$104.9 million and net position comprised approximately 20% of total assets at June 30, 2018.

### Analysis of Results of Operations:

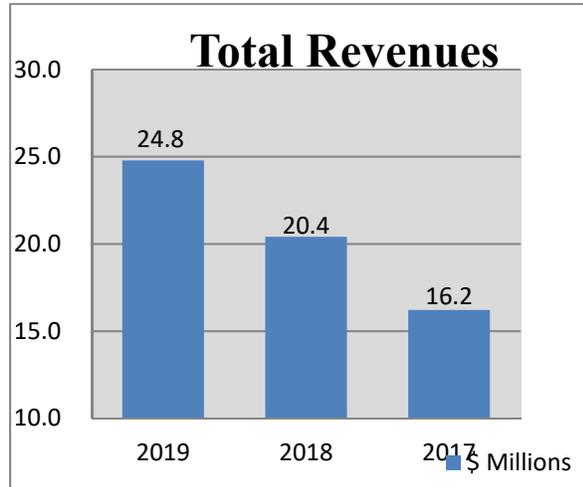
In 2019, total revenues were \$24.8 million, an increase of \$4.4 million from June 30, 2018. Total revenues for the Year Ended June 30, 2018 were approximately \$20.4 million, an increase of \$4.2 million from the prior year. The fluctuations are primarily attributable to:

- Both 2019 and 2018 increased interest rates produced net increases in student loan interest, interest subsidy, and special allowance despite lower student loan receivables.
- In 2019 and 2018, there was a decrease in the fair market value of the derivative instruments caused by higher interest, lower notional amounts, and reductions in the remaining terms of the derivative instruments.
- In 2019, the Foundation earned an additional \$2.8 million in revenue from the Collections Agency than in 2018. In 2018, the Foundation earned \$210 thousand less in revenue from the Collections Agency than in 2017.

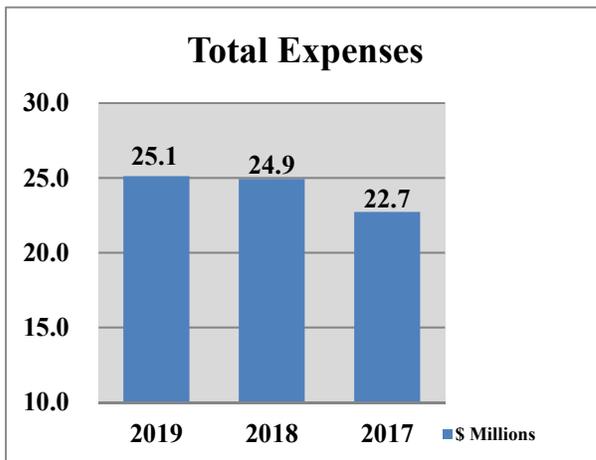
# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management’s Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

- In 2019 and 2018, loan servicing and other fees decreased in total due to reductions in the volume of amounts serviced. In 2019, the servicing fee paid by the NMSLGC decreased by \$50 thousand from 2018 due to lower salary costs.
- For the year ended June 30, 2019, investment revenue in the Debt Fund increased by \$3.3 million, interest subsidy and special allowance revenue for the Debt Fund increased \$2.1 million, and interest income decreased \$1.5 million. For the year ended June 30, 2018, investment revenue in the Debt Fund increased by \$3.1 million, interest and special allowance revenue for the Debt Fund increased \$4.0 million, and interest income decreased \$2.0 million.



Total expenses for the year ended June 30, 2019 were \$25.1 million, which was an increase of \$195 thousand or less than 1% over the prior year expense. Total expenses for the year ended June 30, 2018 were \$24.9 million, which was an increase of \$2.2 million or 10% over the prior year expense. The primary drivers behind the changes were:



- During the year ended June 30, 2019, interest expense increased by \$1.7 million. During the year ended June 30, 2018, interest expense increased by \$2.6 million. The increases in 2019 and 2018 are due to rising interest rates.

- During fiscal years 2019 and 2018, other expenses decreased by \$127 thousand.

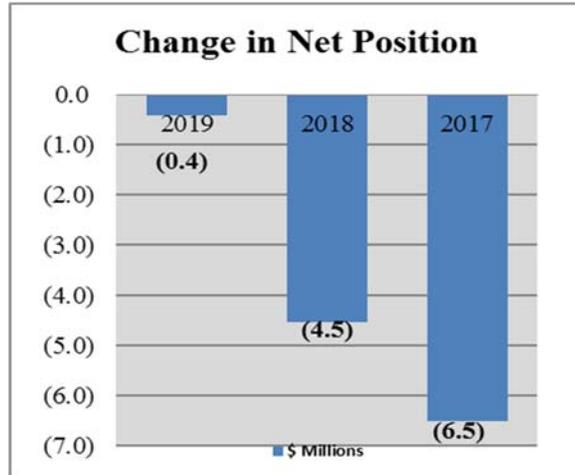
- In 2019, the Debt Fund expenses

increased by \$0.4 million due to the rising interest rates. The General Fund operating expenses decreased by \$0.8 million, mainly due to lower salaries, fringe benefits, and interest expense. In 2018, the Debt Fund expenses increased by \$1.1 million due to rising interest rates. The General Fund operating expenses increased by \$0.4 million mainly due to higher salaries, fringe benefits, and professional fees.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

For the year ended June 30, 2019, the change in net position (deficiency of revenue) was \$0.4 million, an increase of \$4.1 million from the prior year. The change in net position was primarily due to salaries and fringe benefits decreasing at a slower rate than the offsetting revenues. For the year ended June 30, 2018, the change in net position (deficiency of revenue) was \$4.5 million, an increase of \$2.0 million from the prior year. The change in net position was primarily due to the decrease in the fair market value of derivative investments.



- As of June 30, 2019, the Debt Fund decreased net position by \$0.1 million while the General Fund decreased net position by \$0.4 million. The Debt Fund's decrease to net position was due to the decrease in fair market value of the derivative instruments, the reduction in borrower interest on the shrinking student loan portfolio, and interest rates rising. The General Fund's decrease was primarily due to loan servicing salaries and fringe benefits decreasing at a slower rate than the offsetting revenues. In comparison, for the year ended June 30, 2018, the Debt Fund decreased net position by \$3.4 million while the General Fund decreased net position by \$1.1 million. The Debt Fund's decrease to net

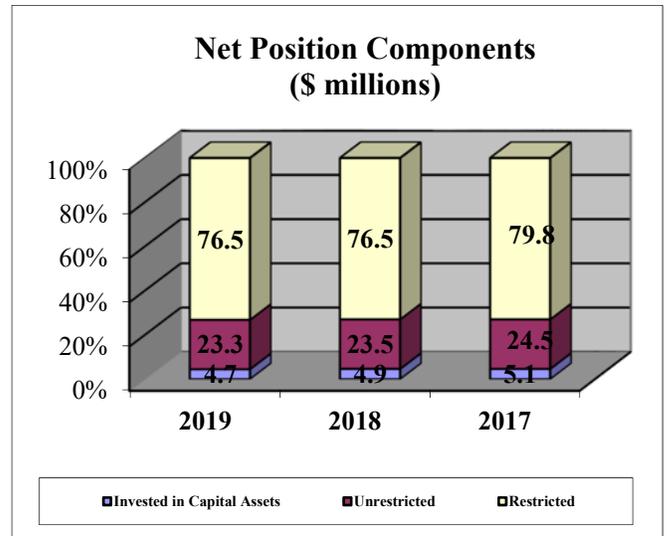
position was due to the decrease in fair market value of the derivative instruments, the reduction in borrower interest on the shrinking student loan portfolio, and interest rates rising. The General Fund's decrease was primarily due to the increase in salaries, fringe benefits, and the decrease in collection revenue.

The primary inter-fund transactions are periodic payments to the General Fund from the Debt Fund of a "trust administrative allowance." The allowance is a federally prescribed yield on the student loan receivable balance that can be utilized unencumbered by the agency to cover general administrative costs. The allowance comprised 54% of the General Fund's total revenues for the year ended June 30, 2019, while the dollar amount decreased 11%. In 2018, the allowance comprised 60% of the General Fund's total revenues, while the total dollar amount decreased by 11% over the prior year. The allowance is driven by the balance in student loans receivable. In consolidating the two funds for presentation in the financial statements, trust administrative allowance revenue and expense were eliminated from the Statement of Revenues, Expenses, and Changes in Net Position.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management’s Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

The amount of net position invested in capital assets at June 30, 2019 was \$4.7 million, a decrease of \$0.2 million from the prior year. The amount of net position invested in capital assets at June 30, 2018 was \$4.9 million, a decrease of \$0.2 million from the prior year. In 2019 and 2018, the decrease is primarily due to depreciation exceeding the value of new capital assets purchased. For the fiscal year ended June 30, 2019, the restricted net position balance of \$76.5 million – which must be reserved to collateralize outstanding bond debt – decreased by \$22 thousand. The restricted net position balance of \$76.5 million, which must be reserved to collateralize outstanding bond debt, decreased by \$3.3 million in fiscal year 2018. Unrestricted net position, which is unencumbered, decreased by \$0.1 million to \$23.3 million as of June 30, 2019 and decreased by \$1.0 million to \$23.5 million as of June 30, 2018.



### IV. Analysis of Significant Budgetary Variations

In June 2018 and June 2017, respectively, the Foundation’s board of directors adopted the fiscal year 2018-2019 and 2017-2018 operating budgets for the Debt Fund, the General Fund, and the entity as a whole. These budgets were final, although not legally binding, and therefore are not an integral part of the financial statements. It is the Foundation’s policy to freeze the revenue and expense budget as initially approved and treat new income streams and subsequent approved expenses as non-budgeted items during the year.

In fiscal year 2019, actual total revenues of \$24.8 million exceeded the budgeted \$23.7 million by \$1.1 million, or 4.5%. Most of the increase in revenues was due to student loan and investment portfolios realizing \$1 million higher in interest revenues than forecasted, and Collection Agency revenues being \$0.2 million higher than projected. Total expenses (combined operating and non-operating) of \$25.1 million were favorable to the budget by \$85 thousand, or approximately 0.3% under budget. The change in net position of a \$0.3 million decrease was less than the budgeted decrease in net position of \$1.5 million by \$1.1 million.

In fiscal year 2018, actual total revenues of \$20.4 million fell short of the budgeted \$20.9 million by \$0.5 million, or 2.5%. Most of the shortfall is due to the value of the Derivative Instrument (SWAP) decreasing by \$2.9 million, and the Collection Agency revenues falling short of budget by \$.8 million. Total expenses (combined operating and non-operating) of \$24.9 million were unfavorable to the budget by \$1.3 million, or approximately 6% over budget. The change in net position of a \$4.5 million decrease was more than the budgeted decrease in net position of \$2.6 million by \$1.9 million.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2019 and 2018

### **V. Description of Significant Capital Asset and Long-Term Debt Activity**

#### Capital Assets:

The approved capital budget for the year ended June 30, 2019 was \$336 thousand. The total capital expenditures for the year were \$400 thousand, or \$64 thousand over budget. The major categories of capital expenditures during the year were: Information Technology (IT) Hardware and IT Software, along with Building Improvements.

The approved capital budget for the year ended June 30, 2018 was \$469 thousand. The total capital expenditures for the year were \$408 thousand, or \$61 thousand under budget. The major categories of capital expenditures during the year were: IT Hardware and IT Software, along with Building Improvements.

#### Requests for Information:

This report is designed to provide an overview of NMEAF's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Vice President of Finance, 7400 Tiburon NE, Albuquerque, NM 87109.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Statements of Net Position As of June 30, 2019 and 2018

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 8,448,153	\$ 8,056,102
Cash and Cash Equivalents – Restricted	2,806,293	2,464,185
Funds Held In Custody for Others	132,900	140,862
Investments	53,252,119	57,888,500
Receivables:		
Current Portion of Student Loans Receivable, Net of Allowance of \$609,860 and \$559,562	68,673,334	76,711,972
Student Loan Interest Receivable, Net of Allowance of \$157,505 and \$102,882	17,352,590	15,275,115
Interest Subsidy Receivable	361,365	630,333
Student Loan Late and Legal Fees Receivable, Net of Allowance of \$674,498 and \$842,557	1,249,824	1,564,749
Other	714,547	573,294
Total Current Assets	152,991,125	163,305,112
<b>Long-Term and Other Assets:</b>		
Student Loans Receivable, Net, Less Current Portion	302,533,878	361,642,158
Equity Method Investment	927,592	-
Derivative Instruments	933,265	1,022,031
Prepaid Interest	465,428	549,904
Total Long-Term and Other Assets	304,860,163	363,214,093
<b>Capital Assets:</b>		
Property, Plant & Equipment, Net	4,695,710	4,865,864
Total Assets	\$ 462,546,998	\$ 531,385,069
<b><u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 1,242,700	\$ 1,136,422
Bonds Payable, Current Portion	36,567,144	42,828,104
Special Allowance Payable	213,168	660,892
Accrued Interest on Bonds	1,877,961	2,135,160
Line of Credit	2,500,000	13,595,355
Total Current Liabilities	42,400,973	60,355,933
<b>Long-Term Liabilities:</b>		
Bonds Payable, Less Current Portion	315,080,627	365,523,773
Total Long-Term Liabilities	315,080,627	365,523,773
<b>Deferred Inflow of Resources:</b>		
Other Deferred Gain	621,526	651,456
Total Deferred Inflow of Resources	621,526	651,456
Total Liabilities and Deferred Inflows of Resources	358,103,126	426,531,162
<b><u>NET POSITION</u></b>		
Invested in Capital Assets	4,695,710	4,865,864
Unrestricted	23,255,251	23,472,509
Restricted, Bond Indenture	76,492,911	76,515,534
Total Net Position	104,443,872	104,853,907
Total Liabilities, Deferred Inflows and Net Position	\$ 462,546,998	\$ 531,385,069

See accompanying notes to financial statements.

NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

Statements of Revenues, Expenses, and Changes in Net Position  
Fiscal Years Ended June 30, 2019 and 2018

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<b><u>OPERATING REVENUES:</u></b>		
Student Loan Interest	\$ 20,042,851	\$ 21,807,684
Interest Subsidy and Special Allowance	369,107	(1,710,793)
(Decrease) in Fair Market Value of Derivative Instruments	(88,766)	(2,949,402)
Investment Revenue	1,050,783	585,633
Student Loan Late and Legal Fees, Net	355,892	402,051
Servicing and Administration Agreements:		
New Mexico Student Loan Guarantee Corporation	977,328	1,027,200
Servicing Fees	212,739	-
Other	1,861,846	1,241,276
Total Operating Revenues	<u>24,781,780</u>	<u>20,403,649</u>
<b><u>OPERATING EXPENSES:</u></b>		
Interest Expense on Bonds and Notes Payable	12,827,730	11,152,801
General and Administrative:		
Salaries and Employee Benefits	6,188,275	6,735,906
Depreciation and Amortization	570,567	614,720
Provision for Student Loan Losses	687,327	747,019
U.S. Department of Education Fees	1,903,506	2,149,884
Other Student Loan Related Costs	203,259	646,534
Other	2,482,461	2,608,969
Trustee Fees, Amortization of Debt Issuance Costs, Commitment Fees, and Other Trust Expenses	256,282	268,016
Total Operating Expenses	<u>25,119,407</u>	<u>24,923,849</u>
Operating Loss	<u>(337,627)</u>	<u>(4,520,200)</u>
<b><u>NON-OPERATING EXPENSES:</u></b>		
Loss on Equity Method Investment	(72,408)	-
Total Non-Operating Expenses	<u>(72,408)</u>	<u>-</u>
Change in Net Position	<u>\$ (410,035)</u>	<u>\$ (4,520,200)</u>
<b><u>NET POSITION:</u></b>		
Beginning	\$ 104,853,907	\$ 109,374,107
Ending	<u>\$ 104,443,872</u>	<u>\$ 104,853,907</u>

See accompanying notes to financial statements.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Statements of Cash Flows Fiscal Years Ended June 30, 2019 and 2018

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b><u>CASH FLOWS FROM OPERATING</u></b>		
<b><u>ACTIVITIES:</u></b>		
Cash Received From or on Behalf of Borrowers	\$ 86,726,686	\$ 84,258,271
Cash Disbursed to or Paid on Behalf of Borrowers	(3,923,909)	(5,498,261)
Cash Received From Others	3,786,314	4,449,512
Cash Paid to Employees	(6,188,275)	(6,735,906)
Cash Paid to Suppliers	(2,376,183)	(2,634,063)
Cash Received From Investments	1,031,343	558,655
Cash Paid for Interest on Bonds and Notes	(13,807,248)	(13,141,987)
Net Cash Provided by Operating Activities	65,248,728	61,256,221
<b><u>CASH FLOWS FROM NON-CAPITAL</u></b>		
<b><u>FINANCING ACTIVITIES:</u></b>		
Proceeds from Bonds and Notes	21,379,000	5,975,000
Payments on Bonds and Notes	(88,785,356)	(85,640,000)
Trust Expenditures, Arbitrage, and Excess Earnings Expenditures	(352,142)	(271,514)
Net Cash Used by Non-Capital Financing Activities	(67,758,498)	(79,936,514)
<b><u>CASH FLOWS FROM CAPITAL AND RELATED</u></b>		
<b><u>FINANCING ACTIVITIES:</u></b>		
Purchase of Capital Assets	(400,413)	(407,545)
Net Cash Used by Capital and Related Financing Activities	(400,413)	(407,545)
<b><u>CASH FLOWS FROM INVESTING</u></b>		
<b><u>ACTIVITIES:</u></b>		
Redemptions of Investments	106,941,272	109,357,728
Purchases of Investments	(103,304,891)	(88,233,796)
Funds Held in Custody for Others	7,961	5,244
Net Cash Provided by Investing Activities	3,644,342	21,129,176
Net Increase (Decrease) in Cash and Cash Equivalents	734,159	(2,041,338)
Cash and Cash Equivalents, Beginning of Year	10,520,287	8,478,949
Cash and Cash Equivalents, End of Year	\$ 11,254,446	\$ 10,520,287

- Continued Next Page -

NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

Statements of Cash Flows  
Fiscal Years Ended June 30, 2019 and 2018

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<b><i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i></b>		
Operating (Loss) Income	\$ (337,627)	\$ (4,520,200)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Decrease in Fair Market Value of Derivative Instrument	88,766	2,949,402
Depreciation and Amortization on Capital Assets	570,567	614,720
Trustee Fees, Amortization of Prepaid Interest and Other Trust Expense	256,282	268,016
Amortization of Bond Premium	(423,035)	(2,035,375)
Changes in Assets, Liabilities, and Deferred Inflows:		
Decrease in Student Loans Receivable, Net	67,146,918	65,725,637
(Increase) in all Other Student Loan Related Receivables	(1,941,306)	(2,985,838)
(Increase) in Investment Income Receivable	(19,441)	(26,978)
(Increase) in Other Current Assets	(44,859)	(33,829)
Decrease in Prepaid Interest	84,476	1,096,583
(Decrease) Increase in Accounts Payable and Other Accrued Liabilities	(132,013)	204,083
Net Cash Provided by Operations	<u>\$ 65,248,728</u>	<u>\$ 61,256,221</u>
<b><i>Supplemental Disclosures of Cash Flow Information:</i></b>		
Interest Collected on FFELP Student Loans	<u>\$ 7,102,422</u>	<u>\$ 7,607,796</u>
Interest Subsidy and Special Allowance Paid to the U.S. Department of Education	<u>\$ (99,315)</u>	<u>\$ (2,567,425)</u>
Payments on Notes Payable	<u>\$ (13,595,356)</u>	<u>\$ -</u>
Proceeds from Notes Payable	<u>\$ 2,500,000</u>	<u>\$ -</u>
Principal Amount of Bonds Issued	<u>\$ 18,879,000</u>	<u>\$ -</u>
Principal Amount of Bonds Refunded or Retired	<u>\$ (75,190,000)</u>	<u>\$ (85,640,000)</u>

See accompanying notes to financial statements.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

### **(1) Organization**

The New Mexico Educational Assistance Foundation (the “Foundation” or NMEAF) was organized under the laws of the State of New Mexico on July 1, 1981, as a quasi-governmental, not-for-profit organization for the purpose of improving the educational opportunities of the residents of New Mexico and students who attend New Mexico post-secondary educational institutions. The Foundation services loans and provides administrative support and other services for in-state educational and lending institutions and administers federal financial aid programs. The Foundation also provides administrative support for the New Mexico Student Loan Guarantee Corporation (the Corporation), a quasi-governmental, not-for-profit entity operating as a guarantee agency under the Federal Family Education Loan Program (FFELP).

The Foundation’s primary purpose was to provide a program for making, financing, holding, and purchasing federally insured educational loans. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (H.R. 4872/P.L. 111-152) was signed into law. This act eliminated the disbursement of new loans under the FFELP. As of July 1, 2010, the Foundation no longer originates or disburses student loans under this program.

During the year, the Foundation created a wholly owned for-profit entity and invested \$1 million in this newly created entity. The purpose of this entity was to purchase the assets of an established business to provide an additional source of revenue to support the mission of the Foundation. Management has reviewed the relevant accounting guidance and has determined that this entity is not a component unit and should be accounted for as an investment. The Foundation has no component units.

### **(2) Summary of Significant Accounting Policies**

#### ***(a) Basis of Accounting***

The Foundation meets the definition of a governmental entity as set forth in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*. The financial statements of the Foundation are prepared on the basis of an enterprise fund as defined by the Governmental Accounting Standards Board (GASB). Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the entity is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the entity has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Foundation’s government-wide financial statements are designed to be corporate-like in that all business-type activities are consolidated into one column and consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. The Foundation carries on no governmental activities. It has neither fiduciary funds nor component units that are fiduciary in nature.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred.

Amounts reported as program revenues include:

- Borrower interest income and fees;
- Federal subsidies;
- Investment interest income;
- Loan servicing and other revenue.

Essentially all of the Foundation's revenues are program revenues.

Enterprise funds distinguish operating revenues and expenses from non-operating items. All of the Foundation's revenue streams are considered operating in nature. The principal non-operating expenses are from the loss on the Foundation's equity method investment.

When both restricted and unrestricted net position are available to cover a designated expense, it is the Foundation's policy to use restricted resources first, and then utilize unrestricted resources as they are needed.

### ***(b) Fund Accounting***

The General Fund and Debt Fund (the Funds) are separate sets of self-balancing accounts established to account for all transactions pertaining to the general administration, student lending, and debt issues of NMEAF. These funds do not meet the criteria for reporting as separate funds in the accompanying financial statements, but are used for internal reporting purposes. Each fund utilizes the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The effect of interfund activity has been eliminated from the financial statements.

All transactions relating to the Funds, which are not presented distinctly in the financial statements, are recorded as described below:

- General Fund: The receipt of revenue and transfers for the payment of expenses for the administration of the Foundation's programs are recorded in the General Fund.
- Debt Fund: Transactions relating to the Foundation's borrowings to finance student loans through the issuance of debt are recorded in the Debt Fund. All revenue and expenses associated with these student loans and all related trust indenture activity are recorded in this fund. The Debt Fund reimburses the General Fund for expenses incurred on its behalf. Various assets and liabilities of each respective debt issue are combined in the accompanying balance sheet although there are various restrictive covenants associated with each issue. Net Position of the Debt Fund generally are restricted for the repayment of Debt Fund obligations and to satisfy certain reserve requirements specified by the various indentures.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

### ***(c) Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. The allowance for student loan losses, late and legal fees, special allowance revenue, arbitrage rebate and excess earnings liabilities, and the derivative instruments are the principal areas involving estimates and judgments. Actual results could differ from those estimates.

### ***(d) Cash and Cash Equivalents, Cash and Cash Equivalents – Restricted, Investments***

The Foundation considers cash on hand, in banks, and similar highly liquid instruments to be cash and cash equivalents. Cash equivalents are carried at cost. Cash earmarked for loan disbursement to students and cash collected on student loans but not yet remitted to the Bond trustees are restricted from use for NMEAF operations and are shown as Cash and Cash Equivalents – Restricted on the Statement of Net Position. The Foundation considers all other invested funds to be Investments.

Funds held by Bond trustees, recorded as investments on the Statement of Net Position, consist of the following:

- Money market and deposit funds that are fully secured by a pledge of direct obligations of or guaranteed by the United States of America or certain federal agencies. These investments are carried at cost, which approximates market value.

The Foundation follows GASB 72 and records all investments at fair value. On January 29, 2019, NMEAF's wholly owned for-profit entity purchased the assets, including the name of Collections Resources, Inc. (CRI). The initial investment has been adjusted for the earnings and losses as of the year end. The adjustment is recorded in the Statement of Revenues, Expenses, and Changes in Net Position as Loss on Equity Method Investment. Dividends received from the investment decreases the carrying amount of the investment.

### ***(e) Funds Held in Custody for Others***

NMEAF is the agent for various in-state educational institutions and the private lending community. As an agent, the Foundation holds and disburses funds for the institutions to qualified students. The related liability included the Accounts payable and accrued liabilities on the Statement of Net Position.

### ***(f) Premiums and Borrower Incentive Plan Fees***

The Foundation deferred the recognition of premiums paid on student loan notes purchased and amortizes them over the estimated life of the loans as an adjustment to the yield of the related loans. Borrower incentives costs, such as origination fees and default fees, are also amortized over the estimated life of the related loans. Amortization of these costs is included in other student loan costs expense on the Statement of Revenues, Expenses, and Changes in Net Position.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

### ***(g) Student Loan Late and Legal Fees Receivable***

The Foundation records late and legal fees to each borrower's account when assessed, in accordance with its litigation policy. However, management believes that a portion of these amounts will not be received from the borrower. As a result, NMEAF records late and legal fees revenue, net of estimated amounts deemed uncollectible.

### ***(h) Allowance for Student Loan Losses***

The Foundation provides allowances for the following items in the student loan portfolio: student loans receivable (principal), student loan interest, and late and legal fees receivable. To the extent NMEAF has properly serviced the student loan portfolio in accordance with the U.S. Department of Education's (ED) due diligence regulations and other requirements, student loan principal and interest receivable is insured by the ED between 97% and 100%, depending on the year of origination, of the principal and interest balance during the year. Student loans guaranteed by the Federal Government for the years ended June 30, 2019 and 2018 were \$367,205,761 and \$433,745,874, respectively.

Allowance considerations are applied to student loan late and legal fees receivable because the only recourse for collection of such receivables is the borrower. Allowances recorded by NMEAF are amounts that, in the judgment of management, are adequate to absorb known and estimated risks in the student loan portfolio. Management considers various factors in providing for these losses, including the amount of loans with due diligence violations, litigation results, and estimated successful due diligence cure and collection results on student loans.

### ***(i) Derivative Instruments***

The Foundation accounts for derivative instruments using GASB 53, Accounting and Financial Reporting for Derivative Instruments. This Statement requires the Foundation to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferred inflow and outflow of resources on the Statements of Net Position. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments, are to be reported in the Statements of Revenues, Expenses, and Changes in Net Position.

The Foundation has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 7 Derivative Instruments for further discussion related to the Foundation's interest rate swaps.

### ***(j) Premiums and Gains/Losses on Refunding***

Bond premiums and gains/losses on refunding (including gains/losses related to interest rate swap transactions) are deferred and amortized over the term of the new bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums. Gains/losses on refunding are reported as deferred inflows or outflows of resources.

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Notes to the Financial Statements  
Fiscal Years Ended June 30, 2019 and 2018

***(k) Bond Issuance Costs***

Bond issuance costs, including underwriter's fees, are expensed at issuance.

***(l) Capital Assets***

Capital assets are recorded at cost, net of accumulated depreciation. The capitalization threshold is \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives of the capital assets are as follows:

Building	30 years
Building improvements	10 years
Furniture and fixtures	10 years
Software development and building equipment	5 years
Data processing hardware, other than personal computers	4 years
Data processing hardware, personal computers	3 years
Data processing software	3 years
Vehicles	3 years

Maintenance and repairs that do not extend the assets' useful lives are charged to expense as incurred.

***(m) Restricted Net Position***

Assets held as collateral on outstanding bonds payable are classified as Restricted Net Position.

***(n) Revenue Recognition***

The Foundation records student loan interest, interest subsidy, and special allowance as revenue when earned.

Under the FFELP program, the ED makes quarterly interest payments to the Foundation while the subsidized Stafford loan is in an in-school or in-grace status and until the student is required, under the provisions of the Higher Education Act, to begin repayment. Interest becomes due from individual borrowers once the loan goes into repayment status. Interest on non-subsidized loans is due from individual borrowers once the loan is disbursed. Borrowers under the FFELP program may defer their interest payments on unsubsidized Stafford loans until the end of their in-school and in-grace period. Interest, both subsidized and due from the borrower, is equivalent to the annual student loan interest rate multiplied by the daily unpaid loan balance.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

The ED also provides a special allowance subsidy to lenders participating in the FFELP. Special allowances are computed and paid quarterly on the average daily unpaid principal balance of qualifying student loans outstanding based on an annual rate equal to the average bond equivalent rate of the 91-day United States Treasury Bills for subsidized loans during the calendar quarter, or for loans first disbursed after January 1, 2000, the 90-day commercial paper rate. For loans first disbursed on or after April 1, 2006, if the special allowance calculation based on the 90-day commercial paper rate is less than zero, the Foundation must return this “negative” special allowance to the ED. Effective April 1, 2012, the Foundation elected to waive the 3-month commercial paper rate in favor of the 1-month LIBOR rate in accordance with the H.R. 2055, the Consolidated Appropriations Act.

The Foundation records interest subsidy and special allowance, net of any negative special allowance, as revenue when earned.

Late and legal fees are recorded as revenue when they have been assessed to each borrower's account in accordance with NMEAF's litigation policy. Service agreement revenue is recorded as earned over the life of the contract, and servicing fees are recorded as earned.

### ***(o) Reserves for Excess Earnings and Arbitrage Rebate***

Arbitrage rebate and excess earnings that are owed to the United States Department of Treasury are recorded as separate reserves and are based on calculations performed by independent valuation specialists on an ongoing basis.

### ***(p) Income Taxes***

The Foundation is a tax-exempt, quasi-governmental organization under Section 501(c) (3) of the Internal Revenue Code (IRC). All of NMEAF's income is from tax-exempt activities. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

### ***(q) Recent accounting pronouncements***

The GASB issued Statement No. 90, *Majority Equity Interests*, in August 2018. Its purpose is to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Management reviewed the pronouncement, concluded that it is applicable to their investment in CRI, and determined that the impact on the financial statements will not be significant.

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017 and will be effective for fiscal year 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Management is assessing the impact of this Statement on the Foundation's defined contribution plan.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

GASB Statement No. 87, *Leases*, was issued in June 2017 and will be effective for fiscal year 2020. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Management is assessing the impact of this Statement on the Foundation's equipment leases and their tenant leases.

### *(r) Subsequent Events*

The Foundation has evaluated subsequent events through October 16, 2019, which is the date the financial statements have been issued and have determined no events require disclosure or adjustment to the financial statements.

### **(3) Cash and Cash Equivalents and Investments**

The Foundation considers cash deposits in banks (both restricted and unrestricted), unrestricted money market funds, and cash on hand to be cash and cash equivalents. Other invested funds, including guaranteed investment contracts, U.S. Treasury securities, trustee-held money markets, and certificates of deposit, are classified as investments. For purposes of presentation on this footnote, all cash and cash equivalents and investments are displayed in a single schedule.

### *(a) Concentration of Credit Risk*

The Foundation's investment policy specifies that all investments must comply with New Mexico State Statute 21-21A-17. Generally, this Statute permits investment of funds in the following types of instruments:

- Direct obligations of the United States or its agencies (GNMA, FNMA, FHLB, etc.),
- Certificates of deposit fully collateralized by the above;
- If proceeds from a bond issue, in securities specified under the trust indenture.

As of June 30, 2019, none of the total cash and investments are in Investment Agreements as defined by the trust indentures. Nearly 81.5% of total cash and investments are in money markets that invest in government securities. The remaining cash is in repurchase agreements or demand deposit accounts.

As of June 30, 2018, none of the total cash and investments are in Investment Agreements as defined by the trust indentures. Nearly 85% of total cash and investments are in money markets that invest in government securities. The remaining cash is in repurchase agreements or demand deposit accounts.

## NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

### Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

#### **(b) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. NMEAF has a policy to ensure sufficient collateral on its deposits through U.S. Agency Securities to meet state requirements.

Investments listed below as guaranteed investment contracts and money market funds are carried at cost, which approximates market value due to the short-term nature of the accounts. The credit ratings of these investments are obtained from Moody's Investors Service. They are restricted to the extent required by the bond indentures. Money market funds have no stated maturities.

Cash and cash equivalents and investments balances, as of June 30, 2019, is as follows:

	<u>Maturity</u>	<u>Rating</u>	<u>Fair Value</u>
Money Market Funds – Northern Inst. Funds	N/A	Aaa	\$ 39,631,380
Money Market Funds – Wells Fargo Treasury	N/A	Aaa	9,479,580
JP Morgan 100% U.S. Treasury	N/A	Aaa	1,504,832
CD – Bank of Oklahoma	N/A	Aaa	2,225,000
Cash – Zions Bancorp	N/A	N/A	411,110
Money Market Funds – Fidelity-Treasury	N/A	Aaa	217
Total Investments			53,252,119
Money Market Fund – Bank of the West	N/A	N/A	146,295
Demand Deposits and Cash on Hand	N/A	N/A	11,108,151
Total			\$ 64,506,565

Cash and cash equivalents and investments balances, as of June 30, 2018, is as follows:

	<u>Maturity</u>	<u>Rating</u>	<u>Fair Value</u>
Money Market Funds – Northern Inst. Funds	N/A	Aaa	43,303,583
Money Market Funds – Wells Fargo Treasury	N/A	Aaa	11,633,461
CD – Bank of Oklahoma	N/A	Aaa	2,475,000
JP Morgan 100% U.S. Treasury	N/A	Aaa	476,239
Money Market Funds – Fidelity-Treasury	N/A	Aaa	217
Total Investments			57,888,500
Money Market Fund - Bank of the West	N/A	N/A	146,295
Demand Deposits and Cash on Hand	N/A	N/A	10,375,536
Total			\$ 68,410,331

#### **(c) Investment Fair Value Measurement**

GASB Statement No.72, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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; and Level 3 inputs are significant unobservable inputs.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

Investment and derivative instruments measured at fair value is as follows:

	Total as of June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments, by fair value level				
Debt Securities				
Money Market Accounts	\$ 51,027,119	\$ 51,027,119	\$ -	\$ -
Total Debt Securities	51,027,119	51,027,119	-	-
Certificates of Deposit				
Various Bank CDs	\$ 2,225,000	\$ 2,225,000	\$ -	\$ -
Total Certificates of Deposit	2,225,000	2,225,000	-	-
Total Investments by Fair Value Level	\$ 53,252,119	\$ 53,252,119	\$ -	\$ -
Investment, Derivative Instruments				
Fixed Interest Rate Swaps	\$ 933,265	\$ -	\$ 933,265	\$ -
Total Investment Derivative Instruments	\$ 933,265	\$ -	\$ 933,265	\$ -
	Total as of June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments, by fair value level				
Debt Securities				
Money Market Accounts	\$ 55,413,500	\$ 55,413,500	\$ -	\$ -
Total Debt Securities	55,413,500	55,413,500	-	-
Certificates of Deposit				
Various Bank CDs	\$ 2,475,000	\$ 2,475,000	\$ -	\$ -
Total Certificates of Deposit	2,475,000	2,475,000	-	-
Total Investments by Fair Value Level	\$ 57,888,500	\$ 57,888,500	\$ -	\$ -
Investment, Derivative Instruments				
Fixed Interest Rate Swaps	\$ 1,022,031	\$ -	\$ 1,022,031	\$ -
Total Investment Derivative Instruments	\$ 1,022,031	\$ -	\$ 1,022,031	\$ -

**(d) Equity Method Investment**

The initial investment in CRI was \$1,000,000. During the year ended June 30, 2019, CRI had a loss of \$72,408. The carrying amount of the investment is \$927,592 at June 30, 2019. NMEAF entered into a contingent consideration as part of the investment agreement. If certain net income from operations targets are met, CRI will pay the former CRI shareholders a portion of the income. This consideration will be reflected through the income or loss recorded under the equity method.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

### (4) Student Loans Receivable

Student loans receivable by bond issue and status, at June 30, 2019, is as follows:

<u>Bond Issue</u>	<u>Status</u>		<u>Total</u>
	<u>Student</u>	<u>Repayment</u>	
General Fund	-	4,690,521	4,690,521
Bank of America Line of Credit	-	3,452,023	3,452,023
2001 Series A & B	3,009	6,702,605	6,705,614
2002 Series A	91,099	22,595,010	22,686,109
2003 Series A	55,557	24,431,927	24,487,484
2004 Series A	178,426	34,523,326	34,701,752
2007 Series A	60,741	57,431,917	57,492,658
2009 Series A, B, & C	610,884	72,467,231	73,078,115
2016	-	11,155,971	11,155,971
2018	-	17,430,614	17,430,614
Series 2010-1	260,826	60,300,160	60,560,986
Series 2010-2	268,661	55,106,564	55,375,225
Total	<u>1,529,203</u>	<u>370,287,869</u>	<u>371,817,072</u>
Less allowance for uncollectible principal	(2,508)	(607,352)	(609,860)
Total	<u>\$ 1,526,695</u>	<u>\$ 369,680,517</u>	<u>\$ 371,207,212</u>

Student loans receivable by bond issue and status, at June 30, 2018, is as follows:

<u>Bond Issue</u>	<u>Status</u>		<u>Total</u>
	<u>Student</u>	<u>Repayment</u>	
General Fund	-	7,059,219	7,059,219
Bank of America Line of Credit	-	13,730,311	13,730,311
2001 Series A & B	3,500	7,921,382	7,924,882
2002 Series A	139,092	26,640,056	26,779,148
2003 Series A	123,791	28,798,625	28,922,416
2004 Series A	246,952	41,167,693	41,414,645
2007 Series A	104,511	66,986,681	67,091,192
2009 Series A, B & C	942,267	90,343,676	91,285,943
2016	5,281	14,168,777	14,174,058
Series 2010-1	388,429	71,838,454	72,226,883
Series 2010-2	400,199	67,904,796	68,304,995
Total	<u>2,354,022</u>	<u>436,559,670</u>	<u>438,913,692</u>
Less allowance for uncollectible principal	(3,001)	(556,561)	(559,562)
Total	<u>\$ 2,351,021</u>	<u>\$ 436,003,109</u>	<u>\$ 438,354,130</u>

Student loans receivable had variable and fixed interest rates, ranging from 3.63% to 9% at June 30, 2019, and from 2.68% to 9% at June 30, 2018.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

Student loans are classified as being in either "in-school/in-grace" or "repayment" status. In-school/in-grace status represents the period from the date the loan is made until a student is out of school for a grace period, plus any authorized deferment periods, at which time the repayment status commences. Substantially all student loans receivable are loans provided under the FFELP and are guaranteed.

For 2019, management estimates that approximately \$68.7 million or about 18.5% of the outstanding balance of student loans receivable is due within one year. Generally, student loans are structured with a ten-year repayment period.

### (5) Capital Assets

Capital asset activity, for the year ended June 30, 2019, consists of the following:

	Balance			Balance
	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 1,011,520	\$ -	\$ -	\$ 1,011,520
Total Capital Assets, Not Being Depreciated	<u>1,011,520</u>	<u>-</u>	<u>-</u>	<u>1,011,520</u>
Capital Assets, Being Depreciated:				
Building, Building Equipment, and				
Improvements	6,667,688	223,839	-	6,891,527
Furniture and Fixtures	710,679	8,363	-	719,042
Data Processing Hardware	2,425,645	110,283	-	2,535,928
Data Processing Software	3,298,800	57,928	-	3,356,728
Vehicles	<u>89,550</u>	<u>-</u>	<u>-</u>	<u>89,550</u>
Total Capital Assets, Being Depreciated	<u>13,192,362</u>	<u>400,413</u>	<u>-</u>	<u>13,592,775</u>
Less Accumulated Depreciation:				
Building, Building Equipment, and				
Improvements	(3,260,670)	(282,258)	-	(3,542,928)
Furniture and Fixtures	(672,417)	(9,707)	-	(682,124)
Data Processing Hardware	(2,152,513)	(170,312)	-	(2,322,825)
Data Processing Software	(3,162,868)	(108,290)	-	(3,271,158)
Vehicles	<u>(89,550)</u>	<u>-</u>	<u>-</u>	<u>(89,550)</u>
Total Accumulated Depreciation	<u>(9,338,018)</u>	<u>(570,567)</u>	<u>-</u>	<u>(9,908,585)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,854,344</u>	<u>(170,154)</u>	<u>-</u>	<u>3,684,190</u>
Capital Assets, Net	<u>\$ 4,865,864</u>	<u>\$ (170,154)</u>	<u>\$ -</u>	<u>\$ 4,695,710</u>

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

Capital asset activity, for the year ended June 30, 2018, consists of the following: :

	<b>Balance</b>			<b>Balance</b>
	<b><u>July 1, 2017</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>June 30, 2018</u></b>
Capital Assets, Not Being Depreciated:				
Land	\$ 1,011,520	\$ -	\$ -	\$ 1,011,520
Total Capital Assets, Not Being Depreciated	<u>1,011,520</u>	<u>-</u>	<u>-</u>	<u>1,011,520</u>
Capital Assets, Being Depreciated:				
Building, Building Equipment and				
Improvements	6,530,458	137,230	-	6,667,688
Furniture and Fixtures	710,679	-	-	710,679
Data Processing Hardware	2,230,837	194,808	-	2,425,645
Data Processing Software	3,223,293	75,507	-	3,298,800
Vehicles	<u>89,550</u>	<u>-</u>	<u>-</u>	<u>89,550</u>
Total Capital Assets, Being Depreciated	<u>12,784,817</u>	<u>407,545</u>	<u>-</u>	<u>13,192,362</u>
Less Accumulated Depreciation:				
Building, Building Equipment and				
Improvements	(2,990,979)	(269,691)	-	(3,260,670)
Furniture and Fixtures	(663,342)	(9,075)	-	(672,417)
Data Processing Hardware	(1,961,377)	(191,136)	-	(2,152,513)
Data Processing Software	(3,018,050)	(144,818)	-	(3,162,868)
Vehicles	<u>(89,550)</u>	<u>-</u>	<u>-</u>	<u>(89,550)</u>
Total Accumulated Depreciation	<u>(8,723,298)</u>	<u>(614,720)</u>	<u>-</u>	<u>(9,338,018)</u>
Total Capital Assets, Being Depreciated, Net	4,061,519	(207,175)	-	3,854,344
Capital Assets, Net	<u>\$ 5,073,039</u>	<u>\$ (207,175)</u>	<u>\$ -</u>	<u>\$ 4,865,864</u>

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

Depreciation expense, segregated by classification, is as follows:

	<b>Year Ended June 30, 2019</b>	<b>Year Ended June 30, 2018</b>
Building and Building Improvements	\$ 282,258	\$ 269,691
Furniture and Fixtures	9,707	9,074
Data Processing Hardware	170,312	191,136
Data Processing Software	108,290	144,819
Total Depreciation Expense	\$ 570,567	\$ 614,720

### (6) Bonds Payable and Line of Credit

Long-term liabilities for the year ended June 30, 2019, is as follows:

	<b>*Balance</b>				<b>Due Within</b>	<b>Balance</b>
	<b>June 30, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>One Year</b>	<b>June 30, 2019</b>	
Bonds Payable	\$ 407,611,000	\$ 18,879,000	\$ (75,190,000)	\$ (36,375,000)	\$ 314,925,000	
Bond Premium	740,876	-	(393,105)	(192,144)	155,627	
Total Long-Term Liabilities	\$ 408,351,876	\$ 18,879,000	\$ (75,583,105)	\$ (36,567,144)	\$ 315,080,627	

Long-term liabilities for the year ended June 30, 2018, is as follows:

	<b>*Balance</b>				<b>Due Within</b>	<b>Balance</b>
	<b>June 30, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>One Year</b>	<b>June 30, 2018</b>	
Bonds Payable	\$ 493,251,000	\$ -	\$ (85,640,000)	\$ (42,435,000)	\$ 365,176,000	
Bond Premium	1,402,296	-	(661,419)	(393,104)	347,773	
Total Long-Term Liabilities	\$ 494,653,296	\$ -	\$ (86,301,419)	\$ (42,828,104)	\$ 365,523,273	

\*Beginning balance includes current portion of long-term liabilities.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

Student loan revenue bonds activity and balances by bond issue for the year ended June 30, 2019, is as follows:

Bond Issue	Interest Rate Range	Maturity Range	Bonds Outstanding June 30, 2018	Issued/ (Retired) FY 2019	Bonds Outstanding June 30, 2019
2001 Series A-1	3.75%	9/1/2031	6,250,000	-	6,250,000
2002 Series A-2	3.80%	11/1/2032	5,850,000	-	5,850,000
2003 Series A-2	3.80%	9/1/2033	10,000,000	-	10,000,000
2004 Series A-1	3.875%	4/1/2034	11,650,000	-	11,650,000
2007 Series A	Variable	4/1/2037	64,400,000	-	64,400,000
2009 Series B & C	3.90% to 4.10%	9/1/2018-9/1/2020	51,645,000	(21,240,000)	30,405,000
Series 2010-1	Variable	12/1/18-12/1/38	75,180,000	(12,870,000)	62,310,000
Series 2010-2	Variable	12/1/20-12/1/38	66,200,000	(12,400,000)	53,800,000
Series 2013-1	Variable	1/2/25	103,772,000	(23,894,000)	79,878,000
Series 2016	Variable	6/30/24	12,664,000	(3,030,000)	9,634,000
Series 2018	Variable	12/13/21	-	17,123,000	17,123,000
			407,611,000	(56,311,000)	351,300,000
2009 Series A, B & C and 2010-1 Bond Premium			740,876	(393,105)	347,771
			\$ 408,351,876	\$ (56,704,105)	\$ 351,647,771

As of June 30, 2019, interest rates for the variable bond issues are as follows: 2007 Series A1-3.90%; 2007 Series A2 (taxable)-3.329%; 2010 Series A-3-3.72025%; Series 2010-2-A2-3.82025%; Series 2010-2-A3-3.68025%; Series 2013-1(taxable) A-1-3.140%; Series 2016-3.2943%; and Series 2018 3.0943%.

Student loan revenue bonds activity and balances by bond issue for the year ended June 30, 2018, is as follows:

Bond Issue	Interest Rate Range	Maturity Range	Bonds Outstanding June 30, 2017	Issued/ (Retired) FY 2018	Bonds Outstanding June 30, 2018
2001 Series A-1	3.75%	9/1/2031	6,250,000	-	6,250,000
2002 Series A-2	3.80%	11/1/2032	5,850,000	-	5,850,000
2003 Series A-2	3.80%	9/1/2033	10,000,000	-	10,000,000
2004 Series A-1	3.875%	4/1/2034	11,650,000	-	11,650,000
2007 Series A	Variable	4/1/2037	64,400,000	-	64,400,000
2009 Series B & C	3.90% to 4.10%	9/1/2016-9/1/2020	89,395,000	(37,750,000)	51,645,000
Series 2010-1	Variable	12/1/16-12/1/38	88,180,000	(13,000,000)	75,180,000
Series 2010-2	Variable	12/1/20-12/1/38	76,000,000	(9,800,000)	66,200,000
Series 2013-1	Variable	1/2/25	126,312,000	(22,540,000)	103,772,000
Series 2016	Variable	6/30/24	15,214,000	(2,550,000)	12,664,000
			493,251,000	(85,640,000)	407,611,000
2009 Series A, B & C and 2010-1 Bond Premium			1,402,295	(661,419)	740,876
			\$ 494,653,295	\$ (86,301,419)	\$ 408,351,876

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

As of June 30, 2018, interest rates for the variable bond issues are as follows: 2007 Series A1-3.51%; 2007 Series A2 (taxable)-3.10805%; 2010 Series A-2-2.95031%; 2010 Series A-3-3.50031%; Series 2010-2-A2-3.60031%; Series 2010-2-A3-3.46031%; Series 2013-1(taxable)-A-1 2.682%; and Series 2016 2.8187%.

Interest is payable on a semi-annual basis except for certain taxable bonds, the 2016 and the 2018 which are paid monthly, and the 2010-A-1, A-2 and A-3 and 2010-2 A-2 and A-3, which are paid quarterly. Depending on the bond, principal is payable annually or at specified times during the bond maturity period. All bonds are secured as described in the applicable bond resolutions. Related purchased and financed student loans and investments secure the bonds.

Principal maturity and interest requirements on bonds payable are as follows:

Year	June 30, 2019	
	Bond Principal	Bond Interest
2020	\$ 36,375,000	\$ 10,887,230
2021	13,640,000	10,189,566
2022	20,543,000	9,667,617
2023	3,100,000	9,291,254
2024	1,700,000	9,198,459
2025-2029	85,982,000	33,858,992
2030-2034	33,750,000	30,734,896
2035-2039	156,210,000	16,895,568
	\$ 351,300,000	\$ 130,723,582

Bond interest for the variable bond issues was calculated using the Securities Industry and Financial Market Association (SIFMA) and London Inter-Bank Offer Rate (LIBOR) rates as of June 30, 2019 (see bonds activity schedules for lists of variable rates at June 30, 2019 and 2018).

In accordance with the provisions of the Internal Revenue Code (IRC) and related regulations, retainable earnings from non-purpose investments related to the Foundation's tax-exempt bond issues, generally, are limited to the bond yield of the related bond issue. The bond indentures require NMEAF to make annual arbitrage calculations to determine if investments of excess bond proceeds are earning rates of interest in excess of the bond yield. Such amounts, if any, are required to be set aside in arbitrage rebate accounts for each bond issue. The balance in the arbitrage rebate accounts may increase or decrease annually (but not below zero) based on interest rates earned on the investments provided by the bond financing. At the end of each five-year period over the life of the bonds, NMEAF is required to remit any positive arbitrage rebate liability amount to the federal government. Based on the most recent calculation as of May 1, 2019, there are no arbitrage rebate liabilities.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

Similarly, student loan income on all tax-exempt bond issues that may be retained by NMEAF in order to fund operations is limited to the bond yield plus an allowable spread, ranging from 1.50% to 2.00%. The excess earnings liability is computed on an annual basis. The excess earnings reserve can be used over time to forgive principal and/or interest on financed student loans or on other programs that would effectively reduce the Foundation's yield. Amounts not used in this manner are required to be paid to the federal government at the end of each ten-year period and at final maturity of the related bond issues. Based on the most recent calculations as of May 1, 2019 and 2018, there are no excess earnings liabilities.

NMEAF maintains a line of credit with a financial institution to fund the purchase of student loans. The borrowing limit on the line of credit is \$20 million. The line of credit had an outstanding balance of \$2.5 million as of June 30, 2019. Interest is due monthly and is set at the current LIBOR rate plus 70 basis points for the used portion of the line or 3.51% as of June 30, 2019. The unused portion has a fixed interest rate of 0.40%. The line of credit is secured by student loans and matures December 15, 2021.

### (7) Derivative Instruments

#### (a) Summary

At June 30, 2019, NMEAF had the following derivative instruments outstanding:

Type	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Receive Fixed Interest Rate Swap	\$ 24,300,000	9/22/2010	11/28/2025	Floating Monthly LIBOR Rate Spread +.699%	\$ 822,800
Receive Fixed Interest Rate Swap	\$ 30,405,000	9/16/2009	9/1/2020	Receive 3.075% pay daily average 3 Month LIBOR	110,465
Total Fair Value					<u>\$ 933,265</u>

At June 30, 2018, NMEAF had the following derivative instruments outstanding:

Type	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Receive Fixed Interest Rate Swap	\$ 34,500,000	9/22/2010	11/28/2025	Floating Monthly LIBOR Rate Spread +.699%	\$ 786,983
Receive Fixed Interest Rate Swap	\$ 51,645,000	9/16/2009	9/1/2020	Receive 3.075% pay daily average 3 Month LIBOR	235,048
Total Fair Value					<u>\$ 1,022,031</u>

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

It was determined that these derivative instruments did not meet the criteria for hedge effectiveness and, therefore, the decrease in the fair value of \$88,766 and \$2,949,402 is reported as investment revenue for the years ended June 30, 2019 and 2018, respectively. The fair value of the interest rate swaps was estimated based on the present value of the estimated future cash flows.

### **(b) Risks**

#### *Credit risk*

The counter party to these interest rate swaps is Royal Bank of Canada. The credit ratings for Royal Bank of Canada are Aaa (long term) and P-1 (short term) by Moody's Investor Service and AA and F1+ by Fitch Ratings.

NMEAF's policy is to require counterparty collateral posting provisions in its derivative instruments. The terms of this interest rate swap require full collateralization in an asset position, net of the effect of netting arrangements, should the counterparty's credit rating fall below A2 and P-1 as issued by Moody's Investor Service and A and F1 as issued by Fitch Ratings. Collateral posted is to be in the form of Cash, U.S Treasury or Agency Securities.

The fair value of this interest rate swap represents the maximum loss that would be recognized at the reporting date if the counterparty failed to perform as contracted.

#### *Interest Rate Risk*

The Foundation is exposed to interest rate risk on its interest rate swap. As LIBOR increases, NMEAF's net payment on the swap increases.

### **(8) Contractual Arrangements**

NMEAF has certain contractual arrangements as follows:

#### **(a) *The New Mexico Student Loan Guarantee Corporation***

The Corporation's primary purpose is to guarantee, on behalf of the ED, the repayment of eligible student loans made by participating lenders to residents of New Mexico and students who attend New Mexico educational and vocational institutions under the FFELP. Under terms of a service agreement, NMEAF provides office space and administers and performs certain duties and functions for the Corporation, subject to the direction of the Corporation's officers and board of directors. These duties and functions were provided by the Foundation for a board-approved fixed fee of \$965,256 and \$1,013,544 based upon estimated costs for the Corporation's years ended September 30, 2019 and 2018, respectively.

#### **(b) *Collection Fees***

NMEAF under the entity name of 180 Resolutions has entered into an agreement to provide collections services for the NMSLGC's loan portfolio. The collection fee will be based on the default placement with the last collection agency.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

### **(9) Defined Contribution Plan**

The Foundation maintains a Defined Contribution Retirement Plan (the Plan). Participation in the Plan is available to employees regularly scheduled to work 1,000 hours or more in a computation period. Eligibility begins on the first day of the month following the completion of 30 days of employment. Each eligible participant is required to contribute 3.5% of his or her pay to the Plan. The Foundation contributes 7% of the participant's compensation to the Plan. Vesting in the Foundation contributions occurs on a step schedule as follows: 1 year-0%; 2 years-25%; 3 years-50%; 4 years-75%; and 5 years-100%. A participant receives a year of service for vesting purposes if he/she completes 1,000 hours in an anniversary year and he/she is employed on the last day of the anniversary year. If the participant terminates before the date of full vesting, the non-vested amount of the participant's account is forfeited and used by the Foundation to reduce its Plan contributions for the next year. The Foundation may terminate this Plan at any time, and all participant accounts would become 100% vested. The Foundation does not intend to terminate the Plan at this time. For the years ended June 30, 2019 and 2018, the Foundation's contribution was \$251,368 and \$365,010, respectively.

### **(10) Related Parties**

The Foundation's board of directors is made up of five members. The Foundation no longer requires regents of post-secondary schools to be represented on the Board, but does require two Board members to represent educational institutions, because NMEAF no longer originates or disburses student loans. In addition, the State Treasurer and two members representing financial institutions are required to be members of the Board.

The Foundation has bank deposits with certain financial institutions; officers of one or more of these financial institutions are members of the Foundation's Board. The Foundation also processes and services student loans for some of the State's higher education institutions, private colleges, and community colleges. If discussion and action by the Foundation board of directors specifically involves an entity to which an individual board member has any ties, that board member must abstain from voting on that decision.

The Foundation has entered into a shared services agreement with CRI to provide operational support and the renting of office space. All operational support provided is charged to CRI at the cost of the service provided by the Foundation. Office space is provided at a cost equal to the same amount charged to others renting office space from the Foundation. During the year ended June 30, 2019, the Foundation charged CRI \$2,400 under the shared services agreement.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

### (11) Commitments and Contingencies

#### *(a) Litigation Matters*

NMEAF is involved in various legal actions incident to its operations that, in the opinion of management and the Foundation's legal counsel, will not materially affect the Foundation's financial position or results of its operations.

#### *(b) Department of Education Reviews*

The ED periodically performs site visits of the Foundation. The purpose of site visits is to review the Foundation's compliance with the Higher Education Act of 1965, as amended, and the regulations under the FFELP with respect to the Foundation's originating, servicing, and collecting of student loans under this program. The ED most recently conducted a site visit in September 2018 over the default loan collection functions handled by NMEAF as *180 Resolutions*. A final program determination letter for the period covering October 1, 2016 through September 30, 2017 was issued by ED on March 8, 2019. The letter states that during the review, no areas of noncompliance were noted. The program review was closed and no further actions are required.

The ED conducted a site visit in December 2017 for a review covering the period of October 1, 2015 through September 30, 2017. Part of this review is in the response stage.

#### *(c) Risk Management*

NMEAF is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Foundation carries commercial insurance to cover losses related to such risks to which it may be exposed.

#### *(d) Lease Commitments*

During the years ended June 30, 2019 and 2018, the Foundation leased a backup and recovery site for its data processing facilities. The operating lease was entered into on May 20, 2003 as an occupancy and services agreement for provision of disaster recovery functions. Currently, the monthly minimum recurring charge associated with this agreement is \$4,253, with an initial term of 36 months. The term automatically renews each year, unless the lessee or lessor notifies the other party within 30 days that it does not wish to renew.

The Foundation leases its copier/printing equipment from Xerox. This operating lease was entered into on June 10, 2012 for a 12-month term. This term automatically renews unless the lessee or lessor notifies the other party within thirty days that it does not wish to renew. The current minimum monthly amount is \$584.

The total expense relating to these lease commitments included on the Statement of Revenues, Expenses and Changes in Net Position as General and Administration – Other Expense for the years ended June 30, 2019 and 2018 was \$63,042 and \$61,403, respectively.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2019 and 2018

As of June 30, 2019, the total minimum lease expense commitment under the above leases is due as follows:

<b>Minimum Lease Commitment</b>	
<b>As of June 30, 2019</b>	
2020	\$ 58,044
	<u>\$ 58,044</u>

### *(e) Special Allowance Revenue*

During the years ended June 30, 2019 and 2018, independent auditors completed examination engagements of the 9.5% floor according to ED's specifications. The June 30, 2019 and 2018 reports were completed without findings.

### *(f) Mandatory Redemptions*

In addition to scheduled maturities, mandatory redemptions are required in Series 2013-1 A-1, 2016, 2018, 2010-1 A-1 and A-3, and 2010-2 A-2 and A-3. The amount of these redemptions is determined on a quarterly basis (monthly for the 2013, 2016, and 2018 series), according to the availability of cash not already earmarked for expenses and debt service. Budgeted mandatory redemptions are included as short-term bonds payable in the amounts of \$36,375,000 and \$42,435,000 as of June 30, 2019 and 2018, respectively.

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

<u>Federal Agency</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education direct:		
Federal Family Education Loan Program - Lender	84.032-L	
Interest Subsidies		\$ <u>1,738,527</u>
Total Department of Education Direct Program		\$ <u>1,738,527</u>
<b>Total Expenditures of Federal Awards</b>		\$ <u><u>1,738,527</u></u>

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

### NOTE 1. ORGANIZATION

The New Mexico Educational Assistance Foundation (NMEAF) dba New Mexico Student Loans was organized under the laws of the State of New Mexico on July 1, 1981, as a quasi-governmental, not-for-profit organization for the purpose of improving the educational opportunities of the residents of New Mexico and students who attend New Mexico post-secondary educational institutions. NMEAF's primary purpose is to provide a program for making, financing, holding, and purchasing federally insured educational loans. NMEAF also services loans and provides administrative support and other services for in-state educational and lending institutions; federal financial aid programs; and the New Mexico Student Loan Guarantee Corporation (NMSLGC), a quasi-governmental, not-for-profit entity designated to operate as a guarantee agency under the Federal Family Education Loan Program (FFELP).

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards includes all federal assistance to NMEAF that had activity during fiscal year 2019. This schedule has been prepared on the accrual basis of accounting. Revenues are recorded for financial reporting purposes when NMEAF has met the qualifications of the respective program. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of NMEAF under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the Schedule presents only a selected portion of the operations of NMEAF, it is not intended to and does not present the financial positions, changes in financial position or cash flows of NMEAF.

#### *(b) Federal Financial Assistance*

NMEAF receives interest subsidies on behalf of eligible students during qualified periods and special allowance on all qualifying loans. To receive payments of interest subsidies and special allowance, NMEAF must submit quarterly reports to the U.S. Department of Education.

### NOTE 3. STUDENT LOAN NOTES

The U.S. Government pays NMEAF interest on eligible Stafford loans from the date of acquisition until the end of the grace period. In addition, for certain eligible loans, a special allowance is paid at the end of each quarter, which represents supplemental interest on outstanding insured loans. The special allowance is calculated using an annual rate, which is determined periodically and is based on the average interest rate for 91-day U.S. Treasury Bills, or the average 3-month commercial paper rate. Effective April 1, 2012, the Foundation elected to waive the 3-month commercial paper rate in favor of the 1-month LIBOR rate.

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

Student loan notes originated or purchased by NMEAF have been guaranteed by the NMSLGC and reinsured by the U.S. government, provided applicable program requirements have been met by the original lender or NMEAF with respect to such loans. Guaranteed Student Loans Receivable, under the Federal Family Education Loan Program is \$367,205,761 at June 30, 2019. NMEAF did not originate any loans under the Federal Family Education Loan Program during the fiscal year ended June 30, 2019.

## **Report of Independent Auditors 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***

The Board of Directors  
New Mexico Educational Assistance Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Mexico Educational Assistance Foundation (the "Foundation"), which comprise the statement of net position as of June 30, 2019, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

Our consideration of internal control 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation'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*.

### **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.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 16, 2019

## **Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance**

The Board of Directors  
New Mexico Educational Assistance Foundation

### **Report on Compliance for the Major Federal Program**

We have audited New Mexico Educational Assistance Foundation's (the Foundation's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2019. The Foundation'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 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 Foundation'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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation'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 Foundation's compliance.

#### ***Opinion on the Major Federal Program***

In our opinion, the Foundation 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 Foundation 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 Foundation'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 each 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 Foundation'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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Mess Adams LLP*

Albuquerque, New Mexico  
October 16, 2019

**New Mexico Educational Assistance Foundation  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2019**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major federal programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for the Major Federal Program</i>
84.032 – L	Federal Family Education Loan Program - Lenders	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  Yes  No

**Section II - Financial Statement Findings**

No matters reported

**Section III - Federal Award Findings and Questioned Costs**

No matters reported



**NEW MEXICO  
STUDENT  
LOANS**

*We invest in you.*

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

P.O. Box 27020

Albuquerque, NM 87125

505-345-3371 | 1-800-279-5063

**[www.nmstudentloans.org](http://www.nmstudentloans.org)**