



NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

# Financial Statements

JUNE 30 | 2020





**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 with  
Requirements that could have a Direct and Material  
Effect on Each Major Program and on Internal  
Control over Compliance in Accordance with  
OMB Circular A-133 .....43

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



## Independent Auditors' Report

The Board of Directors  
New Mexico Educational Assistance Foundation  
Albuquerque, New Mexico

### Report on the Financial Statements

We have audited the accompanying financial statements of New Mexico Educational Assistance Foundation (the "Foundation"), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

### OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston  
NEW MEXICO | Albuquerque



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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2020 and the changes in its net position and its cash flows for the year 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 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming 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 10, 2020 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.

***Prior period financial statements***

The financial statements of the Foundation as of and for the year ended June 30, 2019 were audited by a predecessor auditor, whose report dated October 16, 2019 expressed an unmodified opinion. Our opinion is not modified with respect to this matter.



Pattillo, Brown & Hill, L.L.P.  
Albuquerque, New Mexico  
October 23, 2020

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

### 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, 2020, the Foundation had 60,418 loans outstanding to 18,330 current and former students at a total principal value, net of an allowance of doubtful accounts, of approximately \$328.9 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 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, 2020 and 2019

### **I. Brief Discussion of Financial Statements**

The financial statements presented herein are the following:

- Statement of Net Position;
- Statement of Revenues, Expenses and Changes in Net Position;
- Statement 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. The 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 Statement 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, 2020 and 2019

#### II. Condensed Financial Information

Condensed financial information is presented below (in thousands).

	At June 30		
	2020	2019	2018
Capital Assets	\$ 4,682	\$ 4,696	\$ 4,866
Student Loan Receivables & Other Assets	388,175	457,851	526,519
Total Assets	\$ 392,805	\$ 462,547	\$ 531,385
Long-Term Liabilities	\$ 260,548	\$ 315,081	\$ 365,524
Other Liabilities	27,194	42,401	60,357
Total Liabilities	287,742	357,482	425,881
Deferred Inflows of Resources	677	622	651
Total Liabilities and Deferred Inflows of Resources	288,419	358,104	426,532
Net Position:			
Invested in Capital Assets	4,682	4,696	4,866
Unrestricted	23,498	23,255	23,473
Restricted	76,206	76,492	76,514
Total Net Position	104,498	104,443	104,853
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 392,805	\$ 462,547	\$ 531,385
	Year Ended June 30		
	2020	2019	2018
Revenues:			
Borrower Interest Income & Fees	\$ 17,994	\$ 20,399	\$ 22,210
Federal Subsidies	(2,541)	369	(1,711)
Investment Revenue	585	962	(2,364)
Loan Servicing & Other Revenue	3,962	3,052	2,268
Total Revenues	20,000	24,782	20,403
Expenses:			
Direct Costs (Recovery) – Federal Family Education Loan Program	12,795	15,959	18,818
Overhead Costs – Federal Family Education Loan Program	5,444	5,884	915
Loan Servicing	1,426	3,276	5,190
Total Expenses	19,665	25,119	24,923
Loss on Equity Method Investment	(392)	(73)	
Change in Net Position	(57)	(410)	(4,520)
Net Position, Beginning of the Year	104,443	104,853	109,375
Net Position, End of the Year	\$ 104,386	\$ 104,443	\$ 104,853



# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

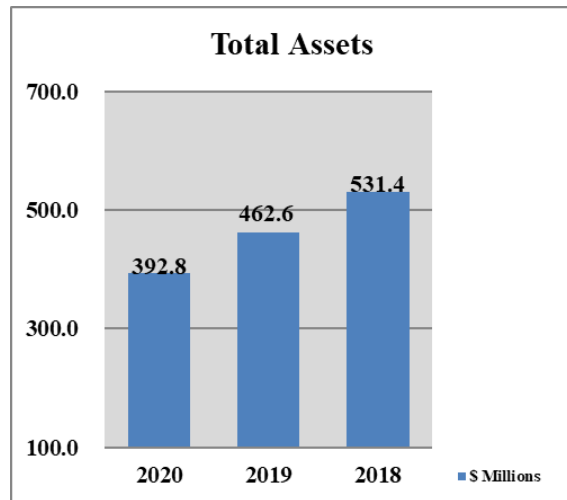
## Management's Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

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

#### Analysis of Financial Position:

The Foundation's Total Assets at June 30, 2020 were at approximately \$392.8 million, a decrease of approximately \$69.8 million from the balance at June 30, 2019. Total assets at June 30, 2019 were just over \$462.6 million, a decrease of approximately \$68.8 million over the balance at June 30, 2018. Significant (approximate) changes in total assets components included:

- As of June 30, 2020, there was a reduction of \$42.3 million in student loans receivable representing an 11% decrease. As of June 30, 2019, there was a reduction of \$67.2 million in student loans receivable representing a 15% decrease. The decreases in both years 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 million as of June 30, 2020 from the amount outstanding June 30, 2019. In 2019, borrower interest receivable and interest subsidy receivable increased \$1.8 million over the amount outstanding June 30, 2018. The increases in both years was due to an increase in loan interest rates despite the declining student loan portfolio.
- The amortization of prepaid interest reduced the amount outstanding each of June 30, 2020 and 2019 less than \$0.1 each year.
- During January of 2019, the Foundation invested \$1 million in Collections Resources, Inc. (CRI), a collection agency within the state of New Mexico. CRI realized operating losses of over \$0.3 million and less than \$0.1 during 2020 and 2019, respectively, which reduced the equity investment held by the Foundation by the same amounts. Other investments decreased by \$22.3 million as of June 30, 2020 and \$4.6 million as of June 30, 2019 from the amount outstanding the prior year. These decreases primarily resulted from lower investment balances due to mandatory and voluntary bond redemptions that occurred during the fiscal years.
- Cash and cash equivalents decreased \$6 million over the prior year as of June 30, 2020. Unrestricted cash decreased by \$5.3 million due to funds used to purchase rehabilitated loans from the New Mexico Student Loan Guarantee Corporation. Restricted cash decreased \$0.7 million due to transfers to investment near year-end. As of June 30, 2019, cash and cash equivalents increased \$0.7 million over the prior year. Unrestricted cash increased by \$0.4 million due to draws from the Bank of America Line of Credit for



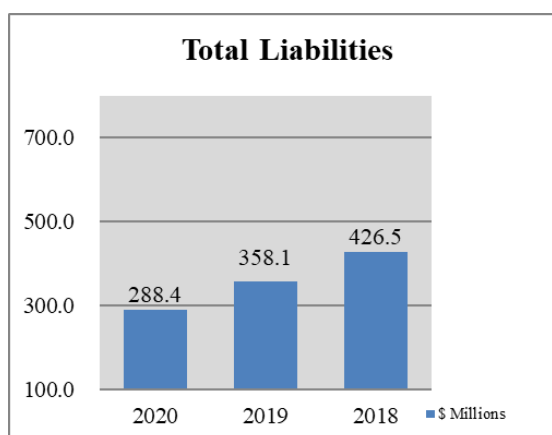
# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

purchases of rehabilitated loans from the New Mexico Student Loan Guarantee Corporation. Restricted cash increased \$0.3 million due to payments received and pending transfer to investments.

- As of June 30, 2020, student loan late and legal fees, net and other receivable amounts increased by \$0.3 million due to an increase in service fee receivables for new activity, an amount due from CRI, and an offsetting decrease in late and legal fees receivable. The late and legal fees continue to reduce due to a maturing student loan portfolio. In 2019, student loan late and legal fees, net and other receivable amounts, decreased by \$0.2 million due to less litigation within the student loan portfolio.
- Purchases of capital assets exceeded deletions and depreciation by a small amount for the year ended June 30, 2020. 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, 2019.

Total liabilities decreased by approximately \$69.7 million to \$288.4 million as of June 30, 2020 as compared to a decrease of approximately \$68.4 million to \$358.1 million as of June 30, 2019. Significant decreases and increases in liabilities were driven by the following primary changes (in approximate amounts):

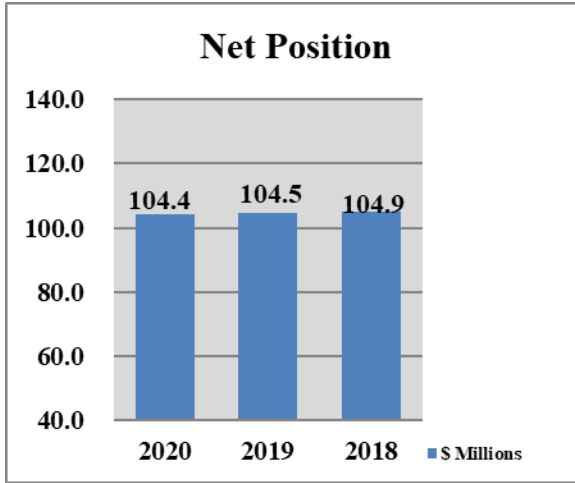


- Current and long-term bonds payable decreased \$77.4 million as of June 30, 2020 from the amount outstanding June 30, 2019. As of June 30, 2019, current and long-term bonds payable decreased by \$56.7 million. The decreases in both years was due to debt retirements during the fiscal years.
- Notes payable increased by \$7.2 million as of June 30, 2020 as compared to June 30, 2019 due to use of the Bank of America Line of Credit to fund the purchases of the New Mexico Student Loan Guarantee Corporation rehabilitated loans. As of June 30, 2019, notes payable decreased by \$11.1 million compared to June 30, 2018 due to issuance the 2018 Bond Indenture to purchase loans out of the Bank of America Line of Credit.
- The year-end interest accrual had a decrease of \$0.9 million in fiscal year 2020 and a decrease of \$0.3 million in 2019 over the prior years. The decreases in both years was due to a reduction in the underlying debt.
- In 2020 and 2019, despite an increase in loan interest rates, the rates were still low enough to prevent earnings that would produce yields above the restricted amount for all bond issues.
- There was not a significant change in accounts payable and accrued liabilities as of June 30, 2020. As of June 30, 2019, accounts payable and accrued liabilities increased \$0.1 million.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

- As of June 30, 2020, special allowance payable increased \$1.4 million due to decreases in the underlying market rates used in the special allowance calculations toward the latter part of the year and higher borrower interest rates on variable loans set at the beginning of the year. This was offset by a decrease in the underlying student loan portfolio. As of June 30, 2019, special allowance payable decreased \$0.4 million due to a decreasing portfolio of student loans offset by a higher rate environment.



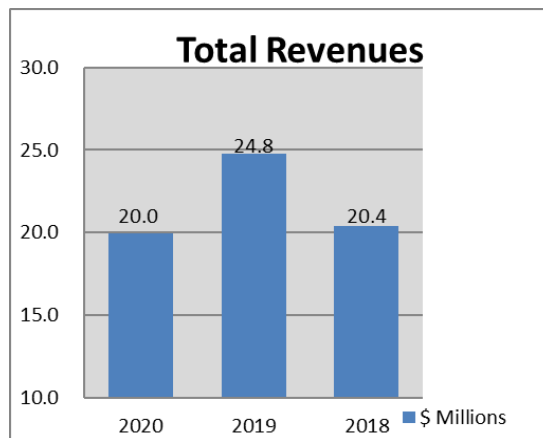
Net position decreased by less than 0.1% to \$104.4 million and net position comprised approximately 27% of total assets at June 30, 2020. Net position decreased by 0.5% to \$104.5 million and net position comprised approximately 23% of total assets at June 30, 2019.

net position comprised approximately 23% of total assets at June 30, 2019.

### Analysis of Results of Operations:

In 2020, total revenues were \$20 million, a decrease of \$4.8 million from June 30, 2019. Total revenues for the Year Ended June 30, 2019 were approximately \$24.8 million, an increase of \$4.3 million from the prior year. The fluctuations are primarily attributable to (in approximate amounts):

- In 2020, borrower and subsidized interest decreased despite higher borrower interest rates on variable loans due to the reduction in the student loan portfolio. Special allowance revenue also decreased primarily driven by the reduction in market rates used by the special allowance formula. In 2019, increased interest rates produced net increases in student loan interest, interest subsidy and special allowance despite lower student loan receivables.
- In 2020, there was a slight increase in the fair market value of the derivative instruments but in 2019, there was a \$2.9 million increase 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 2020, collections fees grew by \$0.3 million compared to the amount in 2019. In 2019, the Foundation earned an additional \$0.6 million in revenue from collections fees than in 2018

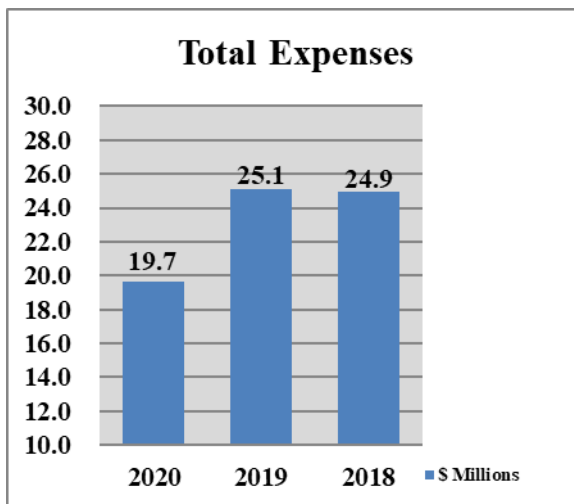


# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

- In 2020, the Foundation began servicing a new contract with the Deloitte Consulting LLP to assist constituents with filing for unemployment benefits with the State of New Mexico. In 2020 and 2019 loan servicing and other fees increased in total due to increases in the services provided.
- For the year ended June 30, 2020, Debt Fund revenue decreased \$6 million over the previous year primarily due a decrease in investment revenue of \$0.5 million, and a \$5.5 million decrease in revenue from student loan activity including borrower interest, interest subsidy and special allowance. General Fund revenue increased \$1.2 million due to increased collections fees, new and enhanced service agreements and purchased rehabilitation loans. For the year ended June 30, 2019, investment revenue in the Debt Fund increased by \$0.5 million, interest and special allowance revenue for the Debt Fund increased \$2.1 million, and interest income decreased \$1.8 million.

Total expenses for the year ended June 30, 2020 were \$19.7 million, which was a decrease of \$5.4 million or more than 21% under the prior year expense. 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. The primary drivers behind the changes were:



- During the year ended June 30, 2020, interest expense decreased \$3.9 million due to lower bonds payable outstanding. During the year ended June 30, 2019, interest expense increased \$1.7 million, due to rising interest rates.

- During fiscal years 2020 and 2019, other expenses decreased by \$1.5 million and \$1.5 million, respectively.

- In 2020, the Debt Fund expenses decreased by \$5.3 million due to a

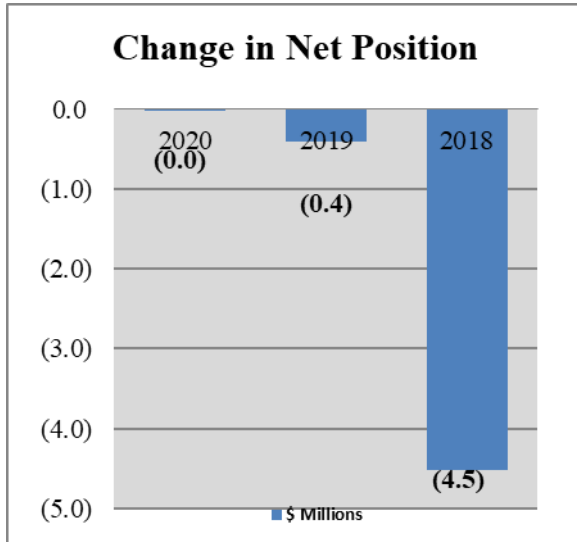
maturing portfolio and lower balances of bonds outstanding. The General Fund operating expenses decreased by \$0.8 million mainly due to lower salaries, fringe benefits, depreciation, and interest expense. In 2019, the Debt Fund expenses increased by \$0.4 million due to the rising interest rates. The General Fund operating expenses decreased by \$0.8 million mainly due to lower salaries, fringe benefits, and interest expense.

For the year ended June 30, 2020, the Change in Net Position (deficiency of revenue) was \$5 thousand, an increase of \$0.4 million from the prior year. The Change in Net Position was primarily due to lower outstanding debt, salaries and fringe expenses offset by a \$0.3 million loss on equity investment. 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.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management’s Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

- As of June 30, 2020, the Debt Fund decreased net position by \$0.3 million while the General Fund increased net position by \$0.3 million. The Debt Fund’s decrease to net position was primarily due to the reduction in borrower interest on the maturing student loan portfolio. The General Fund’s increase was primarily due to additional revenue sources and efficiencies in operating expenses. In comparison, for the year ended June 30, 2019, the Debt Fund decreased net position by \$.01 million while the General Fund decreased net position by \$.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

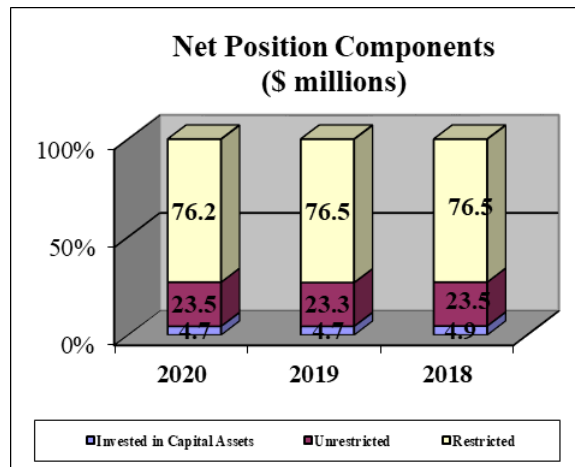


interest on the shrinking student loan portfolio, and interest rates rising. The General Fund’s decrease was primarily due to loan servicing salaries and fringe benefits decreasing at a slower rate than the offsetting revenues.

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 46% of the General

Fund’s Total Revenues for the year ended June 30, 2020 while the dollar amount decreased 14%. In 2019, the allowance comprised 54% of the General Fund’s Total Revenues for the year ended June 30, 2019 while the dollar amount decreased 11%. 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.

The amount of net position invested in capital assets at June 30, 2020 was \$4.7 million, an increase of \$13 thousand from the prior year. 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. In 2020, the increase was primarily due to gains in hardware and software during the year that more than offset the decline in value of the other depreciable assets held by the Foundation. In 2019, the decrease is primarily due to depreciation exceeding the value of new capital assets purchased. For the Fiscal Year Ended June 30, 2020, the Restricted Net Position balance of \$76.2 million, which must be reserved to collateralize



# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

outstanding bond debt – decreased by \$0.3 million. The restricted net position balance of \$76.5 million, which must be reserved to collateralize outstanding bond debt, decreased by \$22 thousand in fiscal year 2019. Unrestricted net position, which is unencumbered, increased by \$0.2 million to \$23.5 million as of June 30, 2020 and decreased by \$0.1 million to \$23.3 million as of June 30, 2019.

### **IV. Analysis of Significant Budgetary Variations**

In June 2019 and June 2018, respectively, the Foundation's board of directors adopted the fiscal year 2019-2020 and 2018-2019 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 2020, actual total revenues of \$20.0 million was below the budgeted \$21.7 million by \$1.7 million or 7.8%. Most of the decrease in revenues was due to student loan and investment portfolios realizing \$2.5 million lower in interest revenues than forecasted, which was partially offset by collection agency activity revenues \$0.2 million higher than projected, revenues earned from the State of New Mexico in assisting with unemployment applications, and other service fee revenue. Total expenses (combined operating and non-operating) of \$19.7 million were favorable to the budget by \$3.3 million or approximately 14.1% under budget primarily due to salary and fringe benefit savings. The change in net position of a \$5 thousand decrease was less than the budgeted decrease in net position of \$1.2 million by \$1.2 million.

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 activity revenues \$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 14.1% under budget. The change in net position of a \$0.4 million decrease was less than the budgeted decrease in net position of \$1.5 million by \$1.1 million.

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

#### Capital Assets:

The approved capital budget for the year ended June 30, 2020 was \$548 thousand. The total capital expenditures for the year were \$490 thousand or \$102 thousand under 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, 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.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Management's Discussion and Analysis Fiscal Years Ended June 30, 2020 and 2019

### Long-Term Debt:

There were no new debt issuances.

### 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, 2020 and 2019

	June 30, 2020	June 30, 2019
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 3,158,239	\$ 8,448,153
Cash and Cash Equivalents – Restricted	2,048,647	2,806,293
Funds Held In Custody for Others	123,758	132,900
Investments	30,953,420	53,252,119
Receivables:		
Current Portion of Student Loans Receivable, Net of Allowance of \$399,721 and \$609,860	57,854,200	68,673,334
Student Loan Interest Receivable, Net of Allowance of \$170,093 and \$157,505	18,444,792	17,352,590
Interest Subsidy Receivable	255,092	361,365
Student Loan Late and Legal Fees Receivable, Net of Allowance of \$539,964 and \$674,498	999,930	1,249,824
Other	1,291,777	714,547
Total Current Assets	115,129,855	152,991,125
<b>Long-Term and Other Assets:</b>		
Student Loans Receivable, Net, Less Current Portion	271,098,423	302,533,878
Equity Method Investment	535,529	927,592
Derivative Investment	978,436	933,265
Prepaid Interest	380,952	465,428
Total Long-Term and Other Assets	272,993,340	304,860,163
<b>Capital Assets:</b>		
Property, Plant & Equipment, Net	4,682,461	4,695,710
Total Assets	\$ 392,805,656	\$ 462,546,998
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 1,233,187	\$ 1,242,700
Bonds Payable, Current Portion	13,740,834	36,567,144
Special Allowance Payable	1,573,132	213,168
Accrued Interest on Bonds & Notes Payable	946,956	1,877,961
Line of Credit	9,700,000	2,500,000
Total Current Liabilities	27,194,109	42,400,973
<b>Long-Term Liabilities:</b>		
Bonds Payable, Less Current Portion	260,547,793	315,080,627
Total Long-Term Liabilities	260,547,793	315,080,627
<b>Deferred Inflow of Resources:</b>		
Other Deferred Gain	676,976	621,526
Total Deferred Inflow of Resources	676,976	621,526
Total Liabilities and deferred inflows of resources	288,418,878	358,103,126
<b><u>NET POSITION</u></b>		
Invested in Capital Assets	4,682,460	4,695,711
Unrestricted	23,497,860	23,255,250
Restricted, Bond Indenture	76,206,458	76,492,911
Total Net Position	104,386,778	104,443,872
Total Liabilities, deferred inflows and Net Position	\$ 392,805,656	\$ 462,546,998

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, 2020 and 2019

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b><u>OPERATING REVENUES:</u></b>		
Student Loan Interest	\$ 17,779,267	\$ 20,042,851
Interest Subsidy and Special Allowance	(2,541,228)	369,107
(Decrease) in Fair Market Value of Derivative Instruments	45,171	(88,766)
Investment Revenue	583,054	1,050,783
Student Loan Late and Legal Fees, Net	214,368	355,892
Servicing and Administration Agreements:		
New Mexico Student Loan Guarantee Corporation	1,158,477	977,328
Servicing Fees	553,028	212,739
Other	2,208,322	1,861,846
Total Operating Revenues	<u>20,000,459</u>	<u>24,781,780</u>
<b><u>OPERATING EXPENSES:</u></b>		
Interest Expense on Bonds and Notes Payable	8,893,899	12,827,730
General and Administration:		
Salaries and Employee Benefits	5,538,248	6,188,275
Depreciation and Amortization	503,197	570,567
Provision for Student Loan Losses	349,849	687,327
U.S. Department of Education Fees	1,685,983	1,903,506
Other Student Loan Related Costs	72,177	203,259
Other	2,368,295	2,482,461
Trustee Fees, Amortization of Debt Issuance Costs, Commitment Fees and Other Trust Expenses	253,842	256,282
Total Operating Expenses	<u>19,665,490</u>	<u>25,119,407</u>
Operating (Loss) Income	<u>334,969</u>	<u>(337,627)</u>
<b><u>NON-OPERATING EXPENSES (RECOVERIES):</u></b>		
Loss on Equity Method Investment	(392,063)	(72,408)
Change in Net Position	<u>(57,094)</u>	<u>(410,035)</u>
<b><u>NET POSITION:</u></b>		
Beginning	104,443,872	104,853,907
Ending	<u>\$ 104,386,778</u>	<u>\$ 104,443,872</u>

See accompanying notes to financial statements.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Statements of Cash Flows Fiscal Years Ended June 30, 2020 and 2019

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b><i>Cash Flows From Operating Activities:</i></b>		
Cash Received From or on Behalf of Borrowers	\$ 60,600,154	\$ 86,726,686
Cash Disbursed to or Paid on Behalf of Borrowers	(4,148,014)	(3,923,909)
Cash Received From Others	3,020,025	3,786,314
Cash Paid to Employees	(5,577,484)	(6,188,275)
Cash Paid to Suppliers	(2,339,032)	(2,376,183)
Cash Received From Investments	1,154,808	1,031,343
Cash Paid for Interest on Bonds/Notes	(10,360,070)	(13,807,248)
Net Cash Provided by Operating Activities	<u>42,350,387</u>	<u>65,248,728</u>
<b><i>Cash Flows From Non-Capital Financing Activities:</i></b>		
Proceeds on Bonds and Notes	7,200,000	21,379,000
Payments on Bonds and Notes	(77,167,000)	(88,785,356)
Trust Expenditures	(253,842)	(352,142)
Net Cash Used by Non-Capital Financing Activities	<u>(70,220,842)</u>	<u>(67,758,498)</u>
<b><i>Cash Flows From Capital and Related Financing Activities:</i></b>		
Purchase of Property & Equipment	(489,948)	(400,413)
Proceeds from Sale of Property & Equipment	5,000	-
Net Cash Used by Capital and Related Financing Activities	<u>(484,948)</u>	<u>(400,413)</u>
<b><i>Cash Flows From Investing Activities:</i></b>		
Redemption of Investments	105,816,729	106,941,272
Purchases of Investments	(83,518,027)	(103,304,891)
Funds Held in Custody for Others	9,141	7,961
Net Cash Used by Investing Activities	<u>22,307,843</u>	<u>3,644,342</u>
Net (Decrease in Cash and Cash Equivalents	(6,047,560)	734,159
Cash and Cash Equivalents, Beginning of Year	<u>11,254,446</u>	<u>10,520,287</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,206,886</u>	<u>\$ 11,254,446</u>

- Continued Next Page -

NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

Statements of Cash Flows  
Fiscal Years Ended June 30, 2020 and 2019

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</i></b>		
Operating Income (Loss)	\$ 334,969	\$ (337,627)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease in Fair Market Value of Derivative Instrument	(45,171)	88,766
Depreciation and Amortization Expense	503,197	570,567
Trustee Fees, Amortization of Debt Issuance Costs, Commitment Fees & Trust Expense	253,842	256,282
Amortization of Bond Premium	(192,144)	(423,035)
Unrealized Gains and Losses	55,450	-
Gain on the Disposal of Fixed Assets	(5,000)	-
Changes in Assets & Liabilities:		
Decrease in Student Loans Receivable, Net	42,254,835	67,146,918
(Increase)Decrease in Student Loan Interest Receivable, Interest Subsidy & Special Allowance Receivable, and Late & Legal Fees Receivable	623,928	(1,941,306)
(Increase)Decrease in Investment Income Receivable	81,758	(19,441)
(Increase)Decrease in Other Current Assets	(659,235)	(44,859)
(Increase) in Prepaid Interest on Bonds	84,476	84,476
(Decrease) in Accounts Payable and Accrued Liabilities	(940,519)	(132,013)
Net Cash Provided by Operations	<u>\$ 42,350,386</u>	<u>\$ 65,248,728</u>
<b><i>Supplemental Disclosures of Cash Flow Information:</i></b>		
Interest Collected on FFELP Student Loans	<u>\$ 9,284,747</u>	<u>\$ 7,102,422</u>
Interest Subsidy and Special Allowance (Paid to) Collected from the U.S. Department of Education	<u>\$ (1,074,992)</u>	<u>\$ (99,315)</u>
Payments on Notes Payable	<u>\$</u>	<u>\$ (13,595,356)</u>
Proceeds on Notes Payable	<u>7,200,000</u>	<u>2,500,000</u>
Principal Amount of Bonds Issued	<u></u>	<u>18,879,000</u>
Principal Amount of Bonds Refunded or Retired	<u>\$ (77,167,000)</u>	<u>\$ (75,190,000)</u>

See accompanying notes to financial statements.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

### (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 (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 Federal Family Education Loan Program. As of July 1, 2010, the Foundation no longer originates or disburses student loans under this program.

During 2019, 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 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 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, 2020 and 2019

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 (income) are from the earnings 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 and Debt Funds (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 combined 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 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, 2020 and 2019

### *(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 Collection 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.

### *(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, 2020 and 2019

### ***(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, 2020 and 2019 were \$325,330,025 and \$367,205,761, 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 Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). 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, 2020 and 2019

### ***(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 lines are charged to expense as incurred.

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

Assets held as collateral on outstanding Bonds and Notes 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.

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 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



# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

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. Collection revenue on defaulted student loans and school receivables is recognized and accrued in the time period 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 for periods after December 15, 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 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 would have been effective for fiscal year 2020 but has been postponed one year by GASB Statement No. 95 due to COVID 19. 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 and newer statements on the Foundation's Defined Contribution Plan.

GASB Statement No. 87, *Leases*, was issued in June 2017 and would have been effective for fiscal year 2020 but has been postponed 18 months by GASB Statement No. 95 due to COVID 19. 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

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

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.

Recent pronouncements effecting future periods include:

- GASB Statement 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, was issued in May of 2020 and will be effective for fiscal year 2024 but has been postponed one year by GASB Statement No. 95 due to COVID 19. SBITAs, as defined in this statement, are contracts that convey control of the right to use another party's information technology software, along or in combination with tangible capital assets. This will require a government to report a subscription assets and subscription liability for a SBITA and to disclose essential information about the arrangement. To the extent relevant, the standards for SBITAs are based on the standards established for Leases in Statement No. 87, as amended.
- Also related to Leases is GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements (PPP)*, issued in March of 2020 and will be effective for fiscal year 2024 but has been postponed one year by Statement No. 95 due to COVID 19.
- GASB Statement No. 93, *Replacement of Interbank Offered rates*, issued in March of 2020 and effective for fiscal year 2022, but postponed one year by Statement No. 95 due to COVID 19. This addresses the expected upcoming expiration of the London Interbank Offered Rate (LIBOR) at the end of 2021 and governments are prompted to amend or replace financial instruments by replacing LIBOR with other reference rates. This change in reference rate may also trigger aspects of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and Statement No. 87, *Leases*.
- GASB Statement No. 92, *Omnibus 2020*, was issued in January of 2020 and covers several requirements including defined contribution plans and leases as well as and recent implementation guides. Implementation dates vary, early implementation is encouraged, and GASB Statement No. 95 due to COVID 19 has postponed dates one year. Management is reviewing in tandem with the preceding statements for the applicability to the Foundation.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

### *(r) Subsequent Events*

The Foundation has evaluated subsequent events through October 10, 2020, 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, 2020, 0% of total cash and investments are in Investment Agreements as defined by the trust indentures. Nearly 73.3% 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, 2019, 0% of 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.

#### *(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.

## NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

### Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

Cash and cash equivalents and investments balances, June 30, 2020:

	<u>Maturity</u>	<u>Rating</u>	<u>Fair Value</u>
Money Market Funds – Northern Inst. Funds	N/A	Aaa	\$ 19,993,107
Money Market Funds – Wells Fargo Treasury	N/A	Aaa	7,539,432
JP Morgan 100% US Treas	N/A	Aaa	1,060,402
CD – Bank of Oklahoma	N/A	Aaa	2,225,000
Cash – Zions Bancorp	N/A	N/A	135,262
Money Market Funds – Fidelity-Treasury	N/A	Aaa	217
Total Investments			30,953,420
Money Market Fund – Bank of the West	N/A	N/A	146,396
Demand Deposits and Cash on Hand	N/A	N/A	5,060,490
Total			\$ 36,160,306

Cash and cash equivalents and investments balances, June 30, 2019:

	<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% US Treas	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

**(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; Level 3 inputs are significant unobservable inputs.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

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

Investments by fair value level	Total as of June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Debt Securities</b>				
Money Market Accounts	\$ 28,728,420	\$ 28,728,420	\$ -	\$ -
Total Debt Securities	\$ 28,728,420	\$ 28,728,420	\$ -	\$ -
<b>Certificates of Deposit</b>				
Various Bank CDs	\$ 2,225,000	\$ 2,225,000	\$ -	\$ -
Total Certificates of Deposit	\$ 2,225,000	\$ 2,225,000	\$ -	\$ -
<b>Total Investments by Fair Value Level</b>	<b>\$ 30,953,420</b>	<b>\$ 30,953,420</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Investment Derivative Instruments</b>				
Fixed Interest Rate Swaps	\$ 978,436	\$ -	\$ 978,436	\$ -
Total Investment Derivative Instruments	\$ 978,436	\$ -	\$ 978,436	\$ -

Investments by fair value level	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)
<b>Debt Securities</b>				
Money Market Accounts	\$ 51,027,119	\$ 51,027,119	\$ -	\$ -
Total Debt Securities	\$ 51,027,119	\$ 51,027,119	\$ -	\$ -
<b>Certificates of Deposit</b>				
Various Bank CDs	\$ 2,225,000	\$ 2,225,000	\$ -	\$ -
Total Certificates of Deposit	\$ 2,225,000	\$ 2,225,000	\$ -	\$ -
<b>Total Investments by Fair Value Level</b>	<b>\$ 53,252,119</b>	<b>\$ 53,252,119</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Investment Derivative Instruments</b>				
Fixed Interest Rate Swaps	\$ 933,265	\$ -	\$ 933,265	\$ -
Total Investment Derivative Instruments	\$ 933,265	\$ -	\$ 933,265	\$ -

***(d) Equity Method Investment***

The initial investment in Collections Resources, Inc. (CRI) was \$1,000,000. During the year ended June 30, 2020, CRI had a loss of \$392,063. The carrying amount of the investment is \$535,529 at June 30, 2020. During the year ended June 30, 2019, CRI had a loss of \$72,408. The carrying amount of the investment was \$927,592 at June 30, 2019. The Foundation 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, 2020 and 2019

### (4) Student Loans Receivable

Student loans receivable by bond issue and status, June 30, 2020.

Bond Issue	Status		Total
	Student	Repayment	
General Fund	\$ 10,857	\$ 10,246,334	\$ 10,257,191
Bank of America LOC	-	11,009,543	11,009,543
2001 Series A & B	1,500	5,800,744	5,802,244
2002 Series A	40,828	19,176,537	19,217,365
2003 Series A	28,542	20,698,396	20,726,938
2004 Series A	133,636	29,992,233	30,125,869
2007 Series A	43,408	49,643,311	49,686,719
2009 Series A, B, & C	444,296	60,412,014	60,856,310
2016	-	9,134,181	9,134,181
2018	-	14,039,366	14,039,366
Series 2010-1	230,398	51,738,531	51,968,929
Series 2010-2	184,712	46,342,977	46,527,689
Total	1,118,177	328,234,167	329,352,344
Less allowance for uncollectible principal	(1,357)	(398,364)	(399,721)
Total	\$ 1,116,820	\$ 327,835,803	\$ 328,952,623

Student loans receivable by bond issue and status, June 30, 2019:

Bond Issue	Status		Total
	Student	Repayment	
General Fund	\$	\$ 4,690,521	\$ 4,690,521
Bank of America LOC		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	34,701,751
2007 Series A	60,741	57,431,917	57,492,658
2009 Series A, B & C	610,884	72,467,231	73,078,116
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	1,529,203	370,287,869	371,817,072
Less allowance for uncollectible principal	(2,508)	(607,352)	(609,860)
Total	\$ 1,526,695	\$ 369,680,517	\$ 371,207,212

Student loans receivable had variable and fixed interest rates, ranging from 2.85% to 9% at June 30, 2020, and from 3.63% to 9% at June 30, 2019.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

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.

Management estimates that approximately \$57.9 million or about 17.6% of the outstanding balance of student loans receivable is due within one year for 2020. Generally, student loans are structured with a ten-year repayment period.

### (5) Capital Assets

Capital asset activity, year ended June 30, 2020:

	<b>Balance</b>		<b>Balance</b>		<b>Balance</b>
	<b>July 1, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2020</b>	
<i>Capital Assets, Not Being Depreciated:</i>					
Land	\$ 1,011,520	\$ -	\$ -	\$ 1,011,520	
Total Capital Assets, Not Being Depreciated	1,011,520	-	-	1,011,520	
 <i>Capital Assets, Being Depreciated:</i>					
Building, Building Equipment and					
Improvements	6,891,527	81,848	(10,844)	6,962,531	
Furniture and Fixtures	719,042	14,230	(31,102)	702,170	
Data Processing Hardware	2,535,928	152,270	(214,317)	2,473,881	
Data Processing Software	3,356,728	217,736	(161,206)	3,413,258	
Vehicles	89,550	23,864	(89,550)	23,864	
Total Capital Assets, Being Depreciated	13,592,775	489,948	(507,019)	13,575,704	
 <i>Less Accumulated Depreciation:</i>					
Building, Building Equipment and					
Improvements	(3,542,928)	(296,820)	10,844	(3,828,904)	
Furniture and Fixtures	(682,124)	(10,442)	31,102	(661,464)	
Data Processing Hardware	(2,322,825)	(107,362)	214,317	(2,215,870)	
Data Processing Software	(3,271,158)	(81,281)	161,206	(3,191,233)	
Vehicles	(89,550)	(7,292)	89,550	(7,292)	
Total Accumulated Depreciation	(9,908,585)	(503,197)	507,019	(9,904,763)	
Total Capital Assets, Being Depreciated, Net	3,684,190	(13,249)	-	3,670,941	
<b>Capital Assets, Net</b>	<b>\$ 4,695,710</b>	<b>\$ (13,249)</b>	<b>\$ -</b>	<b>\$ 4,682,461</b>	

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

Capital asset activity, year ended June 30, 2019:

	<b>Balance</b>			<b>Balance</b>
	<b><u>July 1, 2018</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>June 30, 2019</u></b>
<i>Capital Assets, Not Being Depreciated:</i>				
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>
 <i>Capital Assets, Being Depreciated:</i>				
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>
 <i>Less Accumulated Depreciation:</i>				
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>
<b>Capital Assets, Net</b>	<b>\$ <u>4,865,864</u></b>	<b>\$ <u>(170,154)</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>4,695,710</u></b>

Depreciation expense, segregated by classification, is as follows:

	<b>Year Ended</b>	<b>Year Ended</b>
	<b><u>June 30, 2020</u></b>	<b><u>June 30, 2019</u></b>
Building and Building Improvements	\$ 296,820	\$ 282,258
Furniture and Fixtures	10,442	9,707
Data Processing Hardware	107,362	170,312
Data Processing Software	81,281	108,290
Vehicles	<u>7,292</u>	<u>-</u>
Total Accumulated Depreciation	<b>\$ <u>503,197</u></b>	<b>\$ <u>570,567</u></b>



**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Notes to the Financial Statements  
Fiscal Years Ended June 30, 2020 and 2019

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

Long-term liabilities for the year ended June 30, 2020:

	<b>*Balance</b>			<b>Due Within</b>	<b>Balance</b>
	<b>June 30, 2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>One Year</b>	<b>June 30, 2020</b>
Bonds Payable	\$ 351,300,000	\$ -	\$ (77,167,000)	\$ (13,640,000)	\$ 260,493,000
Bond Premium Payable	<u>347,771</u>	<u>-</u>	<u>(192,144)</u>	<u>(100,834)</u>	<u>54,793</u>
Total Long-Term Liabilities	\$ <u>351,647,771</u>	\$ <u>-</u>	\$ <u>(77,359,144)</u>	\$ <u>(13,740,834)</u>	\$ <u>260,547,793</u>

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

	<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	<u>740,876</u>	<u>-</u>	<u>(393,105)</u>	<u>(192,144)</u>	<u>155,627</u>
Total Long-Term Liabilities	\$ <u>408,351,876</u>	\$ <u>18,879,000</u>	\$ <u>(75,583,105)</u>	\$ <u>(36,567,144)</u>	\$ <u>315,080,627</u>

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

Student Loan Revenue bonds activity and balances by bond issue for the year ended June 30, 2020:

<b>Bond Issue</b>	<b>Interest Rate</b>	<b>Maturity Range</b>	<b>Bonds Outstanding June 30, 2019</b>	<b>Issued/ (Retired) FY 2020</b>	<b>Bonds Outstanding June 30, 2020</b>
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	3.88%	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	30,405,000	(22,375,000)	8,030,000
Series 2010-1	Variable	12/1/18-12/1/38	62,310,000	(9,445,000)	52,865,000
Series 2010-2	Variable	12/1/20-12/1/38	53,800,000	(9,180,000)	44,620,000
Series 2013-1	Variable	1/2/2025	79,878,000	(29,890,000)	49,988,000
Series 2016	Variable	6/30/2024	9,634,000	(2,165,000)	7,469,000
Series 2018	Variable	12/13/2021	<u>17,123,000</u>	<u>(4,112,000)</u>	<u>13,011,000</u>
			351,300,000	(77,167,000)	274,133,000
2009 Series A, B & C and 2010-1 Bond Premium			<u>347,771</u>	<u>(192,144)</u>	<u>155,627</u>
			\$ <u>351,647,771</u>	\$ <u>(77,359,144)</u>	\$ <u>274,288,627</u>

As of June 30, 2020, interest rates for the variable bond issues are as follows: 2007 Series A1 2.13%, 2007 Series A2 (taxable) 1.437%, 2010 Series A-3 1.55%, Series 2010-2-A2 1.65%, Series 2010-2-A3 1.51%, Series 2013-1(taxable) A-1 .87263%, Series 2016 1.0848%, and Series 2018 .8848%.

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Notes to the Financial Statements  
Fiscal Years Ended June 30, 2020 and 2019

Student Loan Revenue bonds activity and balances by bond issue for the year ended June 30, 2019:

<b>Bond Issue</b>	<b>Interest Rate Range</b>	<b>Maturity Range</b>	<b>Bonds Outstanding 6/30/2018</b>	<b>Issued/(Retired) FY 2019</b>	<b>Bonds Outstanding 6/30/2019</b>
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	3.88%	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	1/2/2025	103,772,000	(23,894,000)	79,878,000
Series 2016	Variable	6/30/2024	12,664,000	(3,030,000)	9,634,000
Series 2018	Variable	12/13/2021	-	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%.

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, 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:

<b>June 30, 2020</b>		
<b>Year</b>	<b>Bond Principal</b>	<b>Bond Interest</b>
2021	\$ 13,640,000	\$ 5,075,489
2022	4,190,000	4,907,044
2023	3,100,000	4,821,632
2024	1,700,000	4,766,760
2025-2029	59,157,000	21,323,844
2030-2034	33,750,000	19,498,236
2035-2039	145,585,000	7,674,676
2049	13,011,000	1,151,213
	\$ 274,133,000	69,218,894

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

Bond interest for the variable bond issues was calculated using the Securities Industry and Financial Market Association (SIFMA), and the London Inter-Bank Offer Rate (LIBOR) rates as of June 30, 2020 (see bonds activity schedules for lists of variable rates at June 30, 2020 and 2019).

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, 2020, there are no arbitrage rebate liabilities.

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, 2020 and 2019, there are no excess earnings liabilities.

NMEAF maintains a line of credit with a financial institution to cover operational liquidity. The borrowing limit on the line of credit is \$20 million. The line of credit had an outstanding balance of \$9.7 million as of June 30, 2020. Interest is due monthly and is set at the current Libor rate plus 70 basis points for the used portion of the line or 1.28% as of June 30, 2020. The unused portion has a fixed interest rate of 0.40%.

### (7) Derivative Instrument

#### (a) Summary

At June 30, 2020, NMEAF had the following derivative instruments outstanding:

Type	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Receive Fixed Interest Rate Swap	\$ 16,300,000	9/22/2010	11/28/2025	Floating Monthly LIBOR Rate Spread +.699%	\$ 939,081
Receive Fixed Interest Rate Swap	\$ 8,030,000	9/16/2009	9/1/2020	Receive 3.075% pay daily average 3 Month LIBOR	\$ 39,355
Total Fair Value					<u>\$ 978,436</u>

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

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	\$ <u>110,465</u>
Total Fair Value					\$ <u><u>933,265</u></u>

It was determined that these derivative instruments did not meet the criteria for hedge effectiveness and therefore the increase in value of \$45,171 and decrease in the fair value of \$88,766 is reported as investment revenue for the years ended June 30, 2020 and 2019. The fair value of the interest rate swaps were 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:

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

### *(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, 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 \$1,222,884 and \$965,256 based upon estimated costs for the Corporation's years ended September 30, 2020 and 2019, 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.

## **(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, 2020 and 2019, the Foundation's contribution was \$265,111 and \$251,368, 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 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 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.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

The Foundation has entered into a shared services agreement with CRI to provide operational support and the renting of office space. Operational support provided may be charged to CRI at the cost of the service provided by the Foundation. Office space provided is at a cost equal to the same amount charged to others renting office space from the Foundation. There were no charges for operational support in fiscal years 2020 and 2019. Rent received by the Foundation from CRI was \$3,200 and \$1,200 for the years ended June 30, 2020 and 2019, respectively. In addition, during the year ended June 30, 2020, the Foundation provided a line of credit to CRI at a rate of 1.66%, compounded monthly. The balance was \$234,856 at year-end.

### (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 conducted a site visit in December 2017 for a review covering the period of October 1, 2015 through September 30, 2017. A final program review determination letter was issued February 18, 2020, which states that all requirements have been satisfactorily addressed. The program review was closed and no further actions are required.

The ED conducted a site visit in September 2018 over the default loan collection functions handled by NMEAF as *180 Resolutions*. ED issued a final program determination letter for the period covering October 1, 2016 through September 30, 2017 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.

#### (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 year ended June 30, 2020 and 2019, 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.

# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Notes to the Financial Statements Fiscal Years Ended June 30, 2020 and 2019

Currently, the monthly minimum recurring charge associated with this agreement is \$4,058, with an initial term of 36 months. The term automatically renews each year, unless the lessee or lessor notifies the other party within thirty 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, 2020 and 2019 was \$62,522 and \$63,042, respectively.

The total minimum lease expense commitment under the above leases is due as follows, as of June 30, 2020:

Minimum Lease Commitment	
As of June 30, 2020	
Year ending June 30:	
2021	55,704
	\$ 55,704

### *(e) Special Allowance Revenue*

During the year ended June 30, 2020 and 2019, Independent Auditors completed agreed-upon procedures engagements of the 9.5% floor according to Department of Education's specifications. The June 30, 2020 and 2019 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 \$13,640,000 and \$36,375,000 as of June 30, 2020 and 2019, respectively.

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2020

<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		\$ 1,087,964
Total Department of Education Direct Program		\$ 1,087,964
<b>Total expenditures of federal awards</b>		<b>\$ 1,087,964</b>



# NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2020

### 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 2020. 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, 2020. 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**

## **Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2020**

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 Federal Family Education Loan Program is \$325,330,025 at June 30, 2020. NMEAF did not originate any loans under Federal Family Education Loan Program during the Fiscal Year Ended June 30, 2020. The Foundation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
New Mexico Educational Assistance Foundation  
Albuquerque, New Mexico

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, 2020, and the related statements 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 October 10, 2020.

**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.

**OFFICE LOCATIONS**

TEXAS | Waco | Temple | Hillsboro | Houston  
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## 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.



Pattillo, Brown & Hill, L.L.P.  
Albuquerque, New Mexico  
October 23, 2020

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
THE UNIFORM GUIDANCE**

The Board of Directors  
New Mexico Educational Assistance Foundation  
Albuquerque, New Mexico

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

We have audited the 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, 2020. 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 Each 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 programs for the year ended June 30, 2020.

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### 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 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 were not 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.



Pattillo, Brown & Hill, L.L.P.  
Albuquerque, New Mexico  
October 23, 2020

#### OFFICE LOCATIONS

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**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2020

**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? No  
Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major federal programs:  
Material weakness(es) identified? No  
Significant deficiency(ies) identified? None reported

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

Identification of major 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

**NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2020

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**SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT**

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No matters reported

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**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD  
PROGRAMS AUDIT**

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No matters reported





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