

STATE OF NEW MEXICO

Together for Student Success

**Home of the Yellow Jackets**



**CLAYTON MUNICIPAL SCHOOLS**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

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## **INTRODUCTORY SECTION**

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**CLAYTON MUNICIPAL SCHOOLS**  
**ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2017

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**CLAYTON MUNICIPAL SCHOOLS**  
**ANNUAL FINANCIAL REPORT**  
**OFFICIAL ROSTER**  
June 30, 2017

<u>Name</u>		<u>Title</u>
	<u>Board of Education</u>	
Richard Sandoval		President
Jennifer Gonzales		Vice President
Kim Leal		Secretary
Rebecca Hatch		Member
Chad Deason		Member
	<u>Audit Committee</u>	
Jennifer Gonzales		Board Member
Rebecca Hatch		Board Member
Stacy Diller		Superintendent
Myah Crisp		Administrative Bookkeeper
Cheryl Garcia		Parent/Staff
Craig Reeves		Parent/Financial Experience
	<u>School Officials</u>	
Stacy Diller		Superintendent
Theresa Barreras		Business Manager
Myah Crisp		Administrative Bookkeeper

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**FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Timothy Keller  
New Mexico State Auditor  
The Office of Management and Budget and  
The Governing Board  
Clayton Municipal Schools  
Clayton, New Mexico

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons of the general fund and the major special revenue funds of Clayton Municipal Schools (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise Clayton Municipal Schools' basic financial statements as listed in the table of contents. We did not audit the 2016 Schedule of Employer Allocations and Pension Amounts of the State of New Mexico Educational Retirement Board (ERB), the administrator of the cost sharing pension plan for the District. The schedules and statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District, is based solely on the report of the other auditors.

### **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 misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain 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 Clayton Municipal Schools' 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 Clayton Municipal Schools' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## **Opinions**

In our opinion, based on our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clayton Municipal Schools, as of June 30, 2017, and the respective changes in financial position where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity 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 17-23, the *Schedule of Proportionate Share of the Net Pension Liability* on page 91, the *Schedule of Contributions* on page 93, and the notes to the required supplementary information on page 95 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 the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on Clayton Municipal Schools' financial statements, the combining and individual fund financial statements, and other supplemental information required by 2.2.2 NMAC, presented in the supplementary information section of the Table of Contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and other Schedules, presented in the supplementary information section of the Table of Contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, and Schedules, presented in the supplementary information section of the Table of Contents, required by 2.2.2 NMAC are fairly stated in all material respects in relation to the basic financial statements as a whole.

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**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2017 on our consideration of the Clayton Municipal Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Clayton Municipal Schools' internal control over financial reporting and compliance.

*Precision Accounting, LLC*

*Precision Accounting, LLC*  
Albuquerque, New Mexico  
September 9, 2017

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**CLAYTON MUNICIPAL SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

This is the Management Discussion and Analysis (MD&A) of the fiscal performance of the Clayton Municipal Schools (District) for the period ending June 30, 2017. The MD&A written analysis is a required part of the District's financial reporting and is an objective and easily readable discussion of the District's financial activities. For school districts, GASB 34 has had a significant impact in the manner in which the financial statements are prepared, as well as the kinds of statements that are included in the report. There are two new statements that began four years ago: a Statement of Net Position which includes all of the assets and liabilities of the district and a Statement of Activities, which is a report that uses a net cost format with expenses reported by functions/programs. The Management Discussion and Analysis as well as the two new statements, provide a review of the School District's *overall* financial activities using the accrual basis of accounting. Fund financial statements are reported on a modified accrual basis of accounting. The reports include a comparison with last fiscal year.

The discussion and analysis, as well as the Statement of Net Position and Statement of Activities, provide a review of the District's overall financial activities, using the accrual basis of accounting, for the year ending June 30, 2017. Fund financial statements are reported on a modified accrual basis of accounting. Rather than looking at specific areas of performance, this discussion and analysis focuses on the financial performance of the District as a whole. Whenever possible this discussion and analysis will provide the reader multi-year pictures of financial performance and other pertinent information through the use of tables and other graphics information.

This annual report consists of a series of detailed, audited financial statements and the notes to those statements. Also included is the Independent Auditor's Report, The 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 Governmental Auditing Standards, and a Schedule of Findings and Responses. These statements and information were included in past audit reports.

**About CLAYTON MUNICIPAL SCHOOLS**

To completely understand the financial discussion of Clayton Municipal Schools, it is important to understand the nature of the District.

As one would travel the State of New Mexico, it would be a unique treat to pass through Clayton, located in Eastern New Mexico, which is isolated and yet diverse. Clayton is a small, rural community with a population of just over 2,850 residing in Union County with a population of 4,549. Clayton and Union County's job market is primarily comprised of agriculture, retail, educational services, health care, social assistance and public administration. Personal income and employment have remained stable, while both have grown substantially in the United States. Housing permits and remodeling projects also indicate a lack of growth, but not a steep decline. The market value of products sold in Union County in 1987 was \$212,500,462 and in 2012 the market value of ranching and farming products totaled \$98,138,000, which is a steep decline of \$118,362,462 over the 25 year period. Unemployment rates are low in Union County and the median household income \$38,902 is substantially below the United States average of \$53,046.

Clayton Municipal School District is located in the northeastern corner of New Mexico and covers approximately 2700 square miles. The district is comprised of four schools on three campuses, all within the town of Clayton. The total enrollment (PreK-12) for FY2016-2017 at 80 day was 479, which is down 14 students from prior year 80 day count. CMS enrollment has declined in enrollment from 768 in 1992 to 489 in 2015. In the summer of 2016 the Alvis Elementary bathrooms were brought up to ADA compliance and two classrooms were split into offices for ancillary services using HB33 monies. September 12, 2016 school district voters passed a General Obligation Bond of \$7.95 million to update the aging facilities by securing the exterior shells of each campus and bringing bathrooms, walkways and playgrounds up to ADA compliance at the Kiser/Jr. High and the CHS campuses. In the spring of 2017 Stoven Construction was awarded the contract to refurbish the exterior shell including windows and stucco; improve security; update bathrooms and improve ADA access at all three campuses. J3 Roofing was selected by the board to replace the roofing at the CHS and Alvis campuses. The roofing and construction projects are currently in progress.

**CLAYTON MUNICIPAL SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

It is the attempt of the district to provide academic and extracurricular opportunities that will enhance individual student knowledge and experience. Our older students are active in sports - football, volleyball, basketball, baseball, softball and track - along with FFA, Band, Art, Wood Shop, Honor Society, Student Council, Cheer and various other activities. The primary focus with the elementary students tends to be in the classroom because of necessary skill building at this level. There is little violence or vandalism to report; and it is important that as one walks the halls, there are still no locks on the students' lockers because there is not a need. Clayton continues to do well in the area of academics. Our K-4 elementary school received a "B", the Kiser Elementary campus rose to an "A"; the Junior High School remained a "D", and the high school remained a "B" grade on the NMPED school grade report card for school year 2016-2017.

The District provides a full range of educational services to its students. The Special Education staff of the Clayton district joins forces with the General Education staff, families, and community to increase learning opportunities for all students. The purpose of Special Education is based on a philosophy of providing a high quality, individualized, comprehensive education in the most inclusive environment based on a student's educational needs. The purpose of this education is to prepare students to become productive and responsible and to allow them to meaningfully participate in an ever-changing global society.

**Significant Financial Highlights for the Year Ending June 30, 2017**

**Government Wide**

Net Position decreased from \$74,242 for the year ending June 30, 2016 to \$(649,585) for the year ending June 30, 2017. The total decrease in fund balance is \$(723,827). The decrease was due to a reduction in revenues as a result of State budget cuts and to the construction project capitalized. The District's SEG, Transportation and Instructional Materials funding was specifically affected by the budget cuts.

The change of \$241,796 in capital assets is attributable to capital additions and depreciation expense for the year. There was a decrease in current liabilities of \$297,620 while overall liabilities increased (as a result) by \$945,383 due to the actuarial changes in the net pension liability reporting per GASB 68.

**Governmental funds**

The overall Fund Balances decreased from \$1,821,766 for the year ending June 30, 2016 to \$1,466,138 for the year ending June 30, 2017. The total decrease in fund balance is \$(355,628). The decrease was due to a reduction in revenues as a result of State Budget Cuts. The District's SEG, Transportation and Instructional Materials funding was specifically affected by the budget cuts.

Total expenditures decreased from \$7,360,737 for the year ending June 30, 2016 to \$7,001,148 for the year ending June 30, 2017. This is a decrease in expenditures of \$359,589. The reason for this decrease was a direct result of the reduction in revenue and the fact that the District cuts expenses through attrition and support services. Revenues decreased from \$6,630,710 for the year ending June 30, 2016 to \$6,104,581 for the year ending June 30, 2017 for a total reduction of \$526,129. The District did sell Bonds during the year totaling \$549,540.

Total cash decreased by \$943,811 in 2017 in part due to the district expending operational funds for the GO bond construction and awaiting reimbursement of \$501,115 and also in part due to the reduction in revenues as a result of State Budget cuts. The district began construction on the facilities under the GO Bond that was approved in September 2016,

**CLAYTON MUNICIPAL SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

DISTRICT WIDE FINANCIAL STATEMENTS

Statement of Net Position

The overall Statement of Net Position is prepared using the accrual method of accounting. This statement shows that the District has net position of \$(649,585). The District has \$1,075,306 of cash and cash equivalents on hand as of June 30, 2017 compared to \$2,151,120 in prior year. Net Position totaling \$(6,516,569) are "unrestricted" affected by the pension liability as required per GASB 68.

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Cash Assets	\$ 2,151,120	\$ 1,075,306
Other Current Assets	248,325	670,148
Capital Assets	5,344,048	5,581,946
Deferred Outflows of Resources	660,042	1,036,863
Total Assets	<u>8,403,535</u>	<u>8,364,263</u>
<u>Liabilities</u>		
Accounts Payable	16,635	264,771
Other Current Liabilities	545,756	-
Long Term Liabilities	7,028,482	8,315,163
Total Liabilities	<u>7,634,551</u>	<u>8,579,934</u>
Deferred Inflows of Resources	694,742	433,914
<u>Net Position</u>		
Net investment in capital assets	5,344,048	5,032,406
Restricted	1,465,638	834,578
Unrestricted	<u>(6,735,444)</u>	<u>(6,516,569)</u>
Total Net Position	74,242	(6,516,569)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 8,403,535	\$ 8,364,263

GASB 34 rules require public entities to depreciate capital assets. This statement includes an adjusted accumulated depreciation of the District's capital assets in the amount of \$5,581,946. The District utilized a "straight line" depreciation method in all cases and standardized lifetime tables in calculating this depreciation.

**CLAYTON MUNICIPAL SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

Statement of Activities

The Statement of (Governmental) Activities is a statement required by GASB 34 and is prepared using the accrual method of accounting. This report compliments the Statement of Net Position by showing the overall change in the District's net position for the fiscal year ending June 30, 2017. As of June 30, 2017 the District had net position of \$(649,585).

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Expenses for Governmental Activities	\$ (7,105,161)	\$ (6,821,335)
Less Charges for Services	214,752	213,359
Less Operating Grants and Contributions	606,677	504,735
Less Capital Grants and Contributions	741,501	639,477
Net (Expenses) Revenues and Changes in Net Position	\$ (5,542,231)	\$ (5,463,764)
 General Revenues:		
Taxes -general, debt service, capital projects	\$ 342,277	\$ 343,737
Federal and State Aid not restricted to specific purpose	4,687,000	4,379,903
Interest Earned	9,360	9,845
Miscellaneous	30,242	6,452
Subtotal, General Revenues	<u>5,068,879</u>	<u>4,739,937</u>
Changes in Net Position	(473,352)	(723,827)
Net Position, Beginning	<u>547,594</u>	<u>74,242</u>
Restatement	<u>-</u>	<u>-</u>
Net Position, Ending	\$ 74,242	\$ (649,585)

FUND FINANCIAL STATEMENTS

The Statement of Revenues and Expenditures and Changes in Fund Balances report guides the reader to a meaningful overall view for the District revenue, expenditures and changes to the fund balance. Total revenues from state, local and federal sources and other sources were \$6,095,505. Total expenditures for the District were \$7,000,673. The total ending fund balance was \$1,466,138 a decrease of \$355,628 from the prior year.

Multi-Year District Revenues and Expenditures

A multi-year view of overall District revenues and expenditures indicates a growth and then lack of growth in both areas through the 2017 fiscal year. The revenue and expenditures decreased in the 2017 fiscal year due to NM budget cuts. The District enrollment fluctuates. It is expected that expenditures increase with increased enrollment.

<u>Year</u>	<u>Total Revenues *</u>	<u>Increase %</u>	<u>Total Expenses*</u>
2012/2013	6,942,752	(5.2)%	6,986,253
2013/2014	6,581,714	(5.2)%	6,520,737
2014/2015	6,762,978	2.8%	7,347,098
2015/2016	6,630,710	(2.0)%	7,360,767
2016-2017	6,095,505	(8.07)%	7,000,673

Note: \* Revenues include proceeds from General Obligation Bonds and exclude cash carryovers; \* Expenditures include capital outlays.

**CLAYTON MUNICIPAL SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**The Budget**

District budgets reflect the same growth as seen in the revenue and expenditures of the District. The State of New Mexico school budget process is defined under state law and regulation. To enhance the process of developing a budget at the school district level, the District utilizes goals and objectives defined by the District's Board, community input meetings, long term plans and input from various staff groups to develop to the District's budget. District priorities are well defined through this process.

GASB 34 does not require a statement presenting the overall result of the budget for each year; however, all major budgetary funds are required to be reported as a separate statement.

Major budgetary funds in these reports are: The General Fund (Operational Fund) (Transportation Fund) and the (Instructional Materials Fund), the Bond Building Fund, the Capital Improvements HB-33 and SB-9 (Local) Fund (Local). In addition, fifteen (15) Special Revenue Funds and Capital Projects Funds are also reported for their budgetary performance. The following graphics and tables show the fiscal relationship of the major funds and the combined non-major funds.

The reader will note that the Operational Fund balance represents 99% of the total fund balance and yet only 12% of cash balance. This fund provides the salary and benefits for the significant majority of the Direct Instruction, Instructional Support, Administration, Business Support, Food Service and Maintenance staff as well as classroom materials, special education consulting staff and fixed utility costs.

Revenue from this fund is substantially derived from the State Equalization Guarantee, which is the funding formula appropriated for education by the State Legislature. The General Fund is explored later in the Management Discussion and Analysis.

The following table examines the summary budget performance of the major and combined nonmajor funds for the fiscal year ending June 30, 2017. Detailed budget performance is examined through the Budgetary Comparison Statement for each major fund and the Schedule of Revenues and Expenditures Budget and Actual for the combined Special Revenue Funds, Capital Projects Funds, and Debt Service.

**MAJOR FUNDS EXPENDITURE BUDGET PERFORMANCE**

Fund Type	Final Budget	Actual	Variance
Operational	\$ 5,170,983	\$ 4,681,873	\$ 489,110
Capital Improvements HB-33	488,755	304,686	184,069
Capital Improvements SB-9 (Local)	819,591	101,032	718,559
Debt Service	-	-	-

The Operational Fund's original budget of \$5,187,074 is \$16,901 more than the final budget of \$5,170,983. The reason for this decrease is that the budget is prepared in April, approved in early June and final budget reflects grants and other awards garnered during the year that decreased revenue.

The \$489,110 variance between the final budget in the Operational Fund and the amount actually spent is the result of decreased revenues resulting in decreased expenditures in these revenue funds as detailed in the application process and award guidelines.

**CLAYTON MUNICIPAL SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**COMBINED NON-MAJOR FUNDS EXPENDITURE BUDGET PERFORMANCE**

Fund Type	Combined Budget	Actual	Final Variance
Special Revenue Funds	\$ 952,299	710,736	241,563

All funds fell within the regulatory criteria set by the Public Education Department and New Mexico Statute. Both the Manual of Procedures for Public School Accounting and NMSA 8-22-5, Annotated require that budget expenditures be within the authorization of the approved budget.

**The General Fund**

The Operational Fund is predominately funded by revenues from the State of New Mexico Equalization Guarantee Formula. This fund pays for teaching staff, teaching support staff, special education support staff, maintenance staff and administration staff. The Operational Fund provides the predominant funding for athletics and food service. In 2016-2017 fiscal year there was a 5% decrease in the State Equalization Guarantee because the unit value was decreased.

<u>Year</u>	<u>Revenues</u>	<u>Increase %</u>
2016-2017	6,095,505	(8.0%)

Because the Operational Fund is the main fund whose expenditures are significantly related to the educational process, \$4,681,873 was expended in the year ending June 30, 2017.

The most significant inter-fund expenditure was for the function noted as "Direct Instruction". This expenditure was \$2,494,703 and represents 53% of all general expenditures. Expenditures included in this function are regular and special education teachers and assistants, benefits, payroll taxes, school supplies, training and miscellaneous instructional related contract services. Approximately 91% of all Operational Fund expenditures are made for employee salaries, payroll taxes and benefits.

The Office of the Superintendent and the Business Office represent the overhead support of the entire operations of the District; these programs combined represent 15% of the total Operational Fund. Operation of Plant accounts for 15% of the Operational Fund expenditures. Included in the Operation of the Plant expenditures are salaries and benefits for maintenance staff, school custodians, fixed utility costs, maintenance and repairs, maintenance supplies and school custodial supplies. Additional support for maintenance supplies and projects comes from the voter approved SB9 Fund. The Operational Fund also supports expenditures for athletics, food service and transportation.



**CLAYTON MUNICIPAL SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**Capital Assets**

Because of aging facilities, the District has taken an aggressive approach to maintaining existing facilities.

Asset Type	Balance <u>June 30, 2015</u>	Balance <u>June 30, 2016</u>	Balance <u>June 30, 2017</u>
Land	467,890	467,890	467,890
Capital Assets, depreciable	10,229,775	10,381,410	10,598,622
Construction in Progress	20,325	20,325	289,105
Total Capital Assets	<u>10,717,990</u>	<u>10,869,625</u>	<u>11,355,617</u>
Less Accumulated Depreciation	<u>(5,523,140)</u>	<u>(5,525,577)</u>	<u>(5,769,733)</u>
Capital Assets-Net	5,194,850	5,344,048	5,585,884

In the fiscal year ending June 30, 2017 the Statement of Revenues and Expenditures and Changes in Fund Balances shows the District expended \$954,461 for all capital outlays. The capital outlay expenditures consist mostly of maintenance of equipment and AG Farm building in construction in progress.

In 2003, the New Mexico legislature passed some major education reforms known as House Bill 212 that implemented a new three tiered licensure system for classroom teachers. It has had a major impact on the district's budget because it establishes a \$30,000, \$40,000 and a \$50,000 salary minimum for Level I, Level II and Level III teachers. In addition, the legislation provides for a minimum salary for school principals.

It is expected that there will continue to be double-digit inflation in the cost of health and medical insurance benefits provided through the New Mexico Public Schools Insurance Authority in subsequent years. This will have a large budget impact to the district.

The New Mexico Public Schools Insurance Authority also provides general liability, property damage and worker's compensation coverage for all school districts in New Mexico. It is anticipated that for the next several years, that school districts will experience double-digit inflationary increases for this coverage. The cost increases of general liability, property damage and worker's compensation premiums should be included in the funding formula, but because of the high claims history of some districts, those districts will realize a budget shortfall.

The above factors will present some challenges and opportunities for the District to closely review all programs, operations, and staffing levels, in hopes of identifying ways in which to balance its budget in future years. The board of education has indicated their desire to establish a long-range strategic planning committee to help develop plans for coping with the budget challenges.

**Contacting the Clayton Municipal Schools**

This financial report is designed to provide our community, parents, taxpayers, investors, and creditors with an overview of the Clayton Municipal Schools' financial condition and to provide accountability for the funds the school district receives. If you have any questions about this report or about the operations of the Clayton Municipal Schools' District, please contact:

Stacy Diller, Superintendent  
Clayton Municipal School District  
Clayton, NM 88415  
(575) 374-9611  
[stacy.diller@claytonschools.us](mailto:stacy.diller@claytonschools.us); [sondra.miera@claytonschools.us](mailto:sondra.miera@claytonschools.us)

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**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Exhibit A-1  
(Page 1 of 2)

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and temporary investments	1,075,306
Receivables (net of allowance for uncollectibles)	660,520
Inventory	9,628
Total current assets	<u>1,745,454</u>
Noncurrent assets:	
Capital assets:	
Other capital assets	11,355,617
Less accumulated depreciation	<u>(5,773,671)</u>
Total Capital assets	<u>5,581,946</u>
Total noncurrent assets	<u>5,581,946</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows related to Net Pension Liability	<u>1,036,863</u>
Total deferred inflows of resources	<u>1,036,863</u>
Total assets	<u><u>\$ 8,364,263</u></u>

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Exhibit A-1  
(Page 2 of 2)

	<b>Governmental Activities</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 264,771
Accrued expenses	-
Bonds Payable due in 1 year	-
Total current liabilities	264,771
Noncurrent liabilities:	
Accrued compensated absences	40,252
Bonds Payable	549,540
Net Pension Liability	7,725,371
Total noncurrent liabilities	8,315,163
Total liabilities	8,579,934
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable Revenue-Property Taxes	14,545
Deferred Inflows related to Net Pension Liability	419,369
Total deferred inflows of resources	433,914
Net position:	
Net investment in capital assets	5,032,406
Restricted for	
Special Revenue Funds	88,856
Capital Projects Funds	745,722
Debt Service Funds	-
Unrestricted	(6,516,569)
Total net position	(649,585)
Total liabilities, deferred inflows of resources and net position	\$ 8,364,263

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Service</u>
Governmental activities:		
Instruction:		
Direct instruction	\$ 2,713,695	\$ 15,735
Support services:		
Students	845,836	-
Instruction	52,206	-
General Administration	327,463	-
School Administration	402,258	-
Central Services	178,293	90,920
Operation & Maintenance of Plant	693,866	74,808
Student Transportation	625,631	-
Other Support Services	2,402	-
Food Services	263,122	31,896
Capital Outlay	716,563	-
Interest on long-term debt	-	-
Total governmental activities	<u>\$ 6,821,335</u>	<u>\$ 213,359</u>

<b>Program Revenues</b>		<b>Net</b>
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>(Expenses) Revenues and Changes in Net Position</b>
\$ 307,065	\$ -	\$ (2,390,895)
-	-	(845,836)
-	-	(52,206)
-	-	(327,463)
-	-	(402,258)
-	-	(87,373)
-	22,057	(597,001)
-	617,420	(8,211)
-	-	(2,402)
197,670	-	(33,556)
-	-	(716,563)
-	-	-
<u>\$ 504,735</u>	<u>\$ 639,477</u>	<u>\$ (5,463,764)</u>

**General Revenues:**

Property taxes:	
Levied for general purposes	66,121
Levied for debt service	-
Levied for capital projects	277,616
State aid not restricted	4,379,903
Proceeds from Bonds	-
Unrestricted investment earnings	9,845
Transfers	-
Miscellaneous	6,452
	<u>4,739,937</u>
Total general revenues	<u>4,739,937</u>
Change in net position	(723,827)
Net position - beginning	<u>74,242</u>
Net position - ending	<u>\$ (649,585)</u>

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2017

	General Fund		
	Operational	Transportation	Instructional Materials
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 123,066	\$ -	\$ 7,120
Accounts receivable			
Taxes	1,793	-	-
Due from other governments	-	-	-
Other accounts receivable	-	-	-
Interfund receivable	378,943	1,500	-
Prepaid Assets	-	-	-
Inventory	-	-	-
<i>Total assets</i>	\$ 503,802	\$ 1,500	\$ 7,120
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts payable	\$ 3,168	\$ 74	\$ -
Accrued salaries and benefits	-	-	-
Interfund payable	1,500	-	-
Unearned revenue	-	-	-
<i>Total liabilities</i>	4,668	74	-
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-property taxes	-	-	-
<i>Total deferred inflow of resources</i>	-	-	-
<i>Fund Balances</i>			
Fund Balance			
Non-spendable	-	-	-
Restricted for:			
General Fund	-	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Debt Service Funds	-	-	-
Committed for:			
General Fund	-	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Assigned for:			
General Fund	-	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Unassigned for:			
General Fund	499,134	1,426	7,120
<i>Total fund balances</i>	499,134	1,426	7,120
<i>Total liabilities, deferred inflow of resources and fund balances</i>	\$ 503,802	\$ 1,500	\$ 7,120





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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**GOVERNMENTAL FUNDS**

Exhibit B-1  
(Page 2 of 2)

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Fund balances - total governmental funds	\$	1,466,138
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets		5,581,946
Other liabilities are not due and payable in the current period and therefore are not reported in the funds - accrued interest payable		-
Long-term liabilities, including bonds payable, compensated absences and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the funds		<u>(7,697,669)</u>
Net Position of Governmental Activities in the Statement of Net Position	\$	<u><u>(649,585)</u></u>

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

	General Fund		
	Operational	Transportation	Instructional Materials
<i>Revenues:</i>			
Taxes			
Taxes levied/assessed	\$ 66,121	\$ -	\$ -
Local sources			
Tuition	-	-	-
Investment income	3,742	-	-
Food services	-	-	-
District activities	15,735	-	-
Other revenue	4,528	-	-
State sources			
Unrestricted Grants	4,379,903	-	-
Restricted Grants	-	617,420	28,759
Federal sources			
Unrestricted Grants	-	-	-
Unrestricted -state passthrough	-	-	-
Restricted Grants	-	-	-
Restricted -state passthrough	-	-	-
Department of Interior	-	-	-
Other items	14,125	-	-
<i>Total revenues</i>	<u>4,484,154</u>	<u>617,420</u>	<u>28,759</u>
<i>Expenditures:</i>			
Current:			
Instruction	2,174,343	-	43,077
Support Services			
Students	838,325	-	-
Instruction	52,206	-	-
General Administration	324,898	-	-
School Administration	391,074	-	-
Central Services	178,293	-	-
Operation & maintenance of plant	693,866	-	-
Student transportation	584	625,047	-
Other Support Services	2,402	-	-
Operation of Non-instructional Services			
Food services operations	13,033	-	-
Capital outlay	-	-	-
Debt Service:			
Principal	-	-	-
Interest	-	-	-
<i>Total expenditures</i>	<u>4,669,024</u>	<u>625,047</u>	<u>43,077</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(184,870)</u>	<u>(7,627)</u>	<u>(14,318)</u>
<i>Other financing sources (uses)</i>			
Transfers	26,856	-	-
Bond Proceeds	-	-	-
<i>Total other financing sources (uses)</i>	<u>26,856</u>	<u>-</u>	<u>-</u>
<i>Net changes in fund balances</i>	(158,014)	(7,627)	(14,318)
<i>Fund balances - beginning of year</i>	657,148	9,053	21,438
Restatement-Permanent Cash Transfers	-	-	-
<i>Fund balances-beginning of year, restated</i>	<u>657,148</u>	<u>9,053</u>	<u>21,438</u>
<i>Fund balances - end of year</i>	<u>\$ 499,134</u>	<u>\$ 1,426</u>	<u>\$ 7,120</u>

<u>Capital Improvements Bond Building</u>	<u>Capital Improvements HB-33</u>	<u>Capital Improvements SB-9 Local</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 277,616	\$ -	\$ 343,737
-	-	-	-	-
2,892	441	649	428	8,152
-	-	-	31,896	31,896
-	-	-	165,368	181,103
-	-	418	1,974	6,920
-	-	-	-	4,379,903
-	-	-	1,223	647,402
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	482,267	482,267
-	-	-	-	-
-	-	-	-	14,125
<u>2,892</u>	<u>441</u>	<u>278,683</u>	<u>683,156</u>	<u>6,095,505</u>
-	-	-	396,272	2,613,692
-	-	-	50,957	889,282
-	-	-	-	52,206
-	-	2,565	-	327,463
-	-	-	11,184	402,258
-	-	-	-	178,293
-	-	-	-	693,866
-	-	-	-	625,631
-	-	-	-	2,402
-	-	-	248,086	261,119
549,540	304,686	100,235	-	954,461
-	-	-	-	-
-	-	-	-	-
<u>549,540</u>	<u>304,686</u>	<u>102,800</u>	<u>706,499</u>	<u>7,000,673</u>
<u>(546,648)</u>	<u>(304,245)</u>	<u>175,883</u>	<u>(23,343)</u>	<u>(905,168)</u>
-	-	8,601	(35,457)	-
<u>549,540</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>549,540</u>
<u>549,540</u>	<u>-</u>	<u>8,601</u>	<u>(35,457)</u>	<u>549,540</u>
2,892	(304,245)	184,484	(58,800)	(355,628)
-	489,529	-	644,598	1,821,766
-	-	436,610	(436,610)	-
-	489,529	436,610	207,988	1,821,766
<u>\$ 2,892</u>	<u>\$ 185,284</u>	<u>\$ 621,094</u>	<u>\$ 149,188</u>	<u>\$ 1,466,138</u>

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**GOVERNMENTAL FUNDS**

Exhibit B-2  
 (Page 2 of 2)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 For the year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities  
 are different because:

Net change in fund balances - total governmental funds	\$	(355,628)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital expenditures:		
Current year capital expenditures capitalized		485,992
Depreciation expense		(244,196)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:		
Property taxes		14,545
The issuance of long-term debt (e.g., bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Change in accrued compensated absences		3,435
Bond Proceeds		(549,540)
Change in deferred inflows		(78,435)
Changes in Net Position of Governmental Activities	\$	<u>(723,827)</u>

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**OPERATIONAL FUND**

Exhibit C-1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET (NON - GAAP BUDGETARY BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
Local and county sources	\$ 93,850	\$ 93,850	\$ 90,413	\$ (3,437)
State sources	4,526,121	4,364,543	4,379,903	15,360
Federal sources	-	-	-	-
Interest	-	-	14,125	14,125
<i>Total revenues</i>	<u>4,619,971</u>	<u>4,458,393</u>	<u>4,484,441</u>	<u>26,048</u>
<i>Expenditures:</i>				
Current:				
Instruction	2,959,497	2,459,019	2,174,137	284,882
Support Services				
Students	661,711	621,736	836,899	(215,163)
Instruction	74,986	94,836	52,206	42,630
General Administration	293,261	348,472	325,898	22,574
School Administration	438,743	408,743	391,185	17,558
Central Services	-	188,611	178,293	10,318
Operation & maintenance of plant	712,455	995,120	707,236	287,884
Student transportation	-	2,300	584	1,716
Other Support Services	5,029	5,029	2,402	2,627
Operation of Non-instructional Services				
Food services operations	41,392	47,117	13,033	34,084
Capital outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>5,187,074</u>	<u>5,170,983</u>	<u>4,681,873</u>	<u>489,110</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(567,103)</u>	<u>(712,590)</u>	<u>(197,432)</u>	<u>515,158</u>
<i>Other financing sources (uses):</i>				
Operating transfers	-	-	26,856	26,856
Designated Cash	567,103	712,590	(26,856)	(739,446)
<i>Total other financing sources (uses)</i>	<u>567,103</u>	<u>712,590</u>	<u>-</u>	<u>(712,590)</u>
<i>Net change in fund balances</i>	<u>-</u>	<u>-</u>	<u>(197,432)</u>	<u>(197,432)</u>
<i>Cash balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>699,441</u>	<u>699,441</u>
<i>Cash balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 502,009</u>	<u>\$ 502,009</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (197,432)	
Adjustment to revenues for accruals and other deferrals			12,779	
Adjustment to expenditures for payables, prepaids and other accruals			26,639	
Net change in fund balance (GAAP Basis)			<u>\$ (158,014)</u>	

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**TRANSPORTATION FUND**

Exhibit C-2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET (NON - GAAP BUDGETARY BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
Local and county sources	\$ -	\$ -	\$ -	\$ -
State sources	705,460	624,973	617,420	(7,553)
Federal sources	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	<u>705,460</u>	<u>624,973</u>	<u>617,420</u>	<u>(7,553)</u>
<i>Expenditures:</i>				
Current:				
Instruction	-	-	-	-
Support Services				
Students	-	-	-	-
Instruction	-	-	-	-
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation & maintenance of plant	-	-	-	-
Student transportation	705,460	624,974	624,973	1
Other Support Services	-	-	-	-
Operation of Non-instructional Services				
Food services operations	-	-	-	-
Capital outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>705,460</u>	<u>624,974</u>	<u>624,973</u>	<u>1</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>-</u>	<u>(1)</u>	<u>(7,553)</u>	<u>(7,552)</u>
<i>Other financing sources (uses):</i>				
Operating transfers	-	-	-	-
Proceeds from bonds	-	-	-	-
Designated Cash	-	1	-	(1)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>1</u>	<u>-</u>	<u>(1)</u>
<i>Net change in fund balances</i>	<u>-</u>	<u>-</u>	<u>(7,553)</u>	<u>(7,553)</u>
<i>Cash balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>7,553</u>	<u>7,553</u>
<i>Cash balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (7,553)	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			(74)	
Net change in fund balance (GAAP Basis)			<u>\$ (7,627)</u>	

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**INSTRUCTIONAL MATERIALS FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET (NON - GAAP BUDGETARY BASIS) AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		
<i>Revenues:</i>				
Local and county sources	\$ -	\$ -	\$ -	\$ -
State sources	27,017	21,639	28,759	7,120
Federal sources	-	-	-	-
Interest	-	-	-	-
<i>Total revenues</i>	<u>27,017</u>	<u>21,639</u>	<u>28,759</u>	<u>7,120</u>
<i>Expenditures:</i>				
Current:				
Instruction	48,455	43,077	43,077	-
Support Services				
Students	-	-	-	-
Instruction	-	-	-	-
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation & maintenance of plant	-	-	-	-
Student transportation	-	-	-	-
Other Support Services	-	-	-	-
Operation of Non-instructional Services				
Food services operations	-	-	-	-
Capital outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>48,455</u>	<u>43,077</u>	<u>43,077</u>	<u>-</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(21,438)</u>	<u>(21,438)</u>	<u>(14,318)</u>	<u>7,120</u>
<i>Other financing sources (uses):</i>				
Operating transfers	-	-	-	-
Proceeds from bonds	-	-	-	-
Designated Cash	21,438	21,438	-	(21,438)
<i>Total other financing sources (uses)</i>	<u>21,438</u>	<u>21,438</u>	<u>-</u>	<u>(21,438)</u>
<i>Net change in fund balances</i>	<u>-</u>	<u>-</u>	<u>(14,318)</u>	<u>(14,318)</u>
<i>Cash balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>21,438</u>	<u>21,438</u>
<i>Cash balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,120</u>	<u>\$ 7,120</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (14,318)	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			-	
Net change in fund balance (GAAP Basis)			<u>\$ (14,318)</u>	

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**AGENCY FUNDS**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
 June 30, 2017

**ASSETS**

*Current Assets*

Cash		\$ <u>19,467</u>
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<i>Total assets</i>		\$ <u><u>19,467</u></u>
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**LIABILITIES**

*Current Liabilities*

Deposits held in trust for others		\$ <u>19,467</u>
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<i>Total liabilities</i>		\$ <u><u>19,467</u></u>
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STATE OF NEW MEXICO  
Clayton Municipal Schools  
Notes to the Financial Statements  
June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies**

Clayton Municipal Schools is a special purpose government corporation governed by an elected five member Board of Education. The Board of Education is the basic level of government, which has oversight responsibility and control over all activities related to the public school education of the Town of Clayton. The District is responsible for all activities related to public elementary and secondary school education within its jurisdiction. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

This summary of significant accounting policies of the District is presented to assist in the understanding of the District's financial statements. The financial statements and notes are the representation of Clayton Municipal Schools management who is responsible for their integrity and objectivity. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures. The more significant of the government's accounting policies are described below.

A. *Financial Reporting Entity*

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the District has no component units, and is not a component unit of another governmental agency.

STATE OF NEW MEXICO  
Clayton Municipal Schools  
Notes to the Financial Statements  
June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies** (continued)

**B. *Government-wide and fund financial statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. These include fees for meals, lab fees and activity fees for Clayton Municipal Schools. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. *Measurement focus, basis of accounting, and financial statement presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

STATE OF NEW MEXICO  
Clayton Municipal Schools  
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June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies** (continued)

C. *Measurement focus, basis of accounting, and financial statement presentation* (continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *Operational Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided by district school tax levy, state equalization and earnings from investments. Expenditures include all costs associated with the daily operations of the schools except for those items included in other funds.

The *Transportation Fund* is used to account for the transportation distribution received from the State Department of Education which is used to pay for the costs associated with transporting school age children.

The *Instructional Materials Fund* is used to account for the monies received from the State Department of Education for the purposes of purchasing instructional materials (books, manuals, periodicals, etc.) used in the education of students.

The Capital Improvements Bond Building fund is used to account for funds received from a GO Bond passed in September 2016, restricted to capital improvements of the facilities. Authority for this fund is section 22-26-1, NMSA 1978.

The *Capital Improvements House Bill 33 Project* fund is used to account for funds received from a 2 mill levy, restricted to capital improvements. Authority for this fund is section 22-26-1, NMSA 1978.

The *Capital Improvements SB-9 Capital Projects Fund* is used to account for the revenue derived from a district tax levy and matched by the state. Expenditures are restricted to capital improvements.

Additionally, the government reports the following fund types:

The *Fiduciary Funds* account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

STATE OF NEW MEXICO  
Clayton Municipal Schools  
Notes to the Financial Statements  
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**NOTE 1. Summary of Significant Accounting Policies** (continued)

D. *Assets, Liabilities and Net Position or Equity*

**Deposits and Investments:** The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the District are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Receivables and Payables:** Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

The District receives monthly income from tax levies in Union County. The funds are collected by the County Treasurers and are remitted to the School District the following month. Under the modified accrual method of accounting, the amount remitted by the County Treasurers in July and August is considered 'measurable and available' and, accordingly, is recorded as revenue in the governmental fund statements during the year ended June 30, 2017.

Certain Special Revenue funds are administered on a reimbursement method of funding; other funds are operated on a cash advance method of funding. The funds incurred the cost and submitted the necessary request for reimbursement or advance, respectively.

**Prepaid Items:** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**Instructional Materials:** The New Mexico Public Education Department (PED) receives federal mineral leasing funds from which it makes annual allocations to the various school districts for the purchase of educational materials. Of each allocation, seventy percent is restricted to the requisition of materials listed in the New Mexico Public Education Department "State Adopted Instructional Material" list, while thirty percent of each allocation is available for purchases directly from vendors. The districts are allowed to carry forward unused allocations from year to year.

**Inventory:** Inventory is valued at cost utilizing the purchase basis of accounting. Inventory in the Special Revenue Funds consists of U.S.D.A. commodities and other purchased food and non-food supplies. The cost of purchased food is recorded as expenditures at the time individual inventory items are consumed. The U.S.D.A. commodities are recorded at year-end by audit adjusting entries. Commodities consumed during the year are reported as revenues and expenditures; unused commodities are reported as inventories. Non-commodity inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Donated commodities for the year ended June 30, 2017 were \$16,188.

STATE OF NEW MEXICO  
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**NOTE 1. Summary of Significant Accounting Policies** (continued)

D. *Assets, Liabilities and Net Position or Equity* (continued)

**Capital Assets:** Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5).

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	50
Land improvements	50
Equipment, and Furniture	5-10
Vehicles	12-20

**Unearned Revenues:** Accounting principles generally accepted in the United States of America require that grant revenue be recognized at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, amounts received and not expended in the Special Revenue Funds are shown as unearned revenues. Amounts receivable from the property taxes levied for the current year that are not considered to be “available” under the current financial resources measurement focus are reported as unearned revenues in the governmental fund financial statements.

**Deferred inflows/outflows of resources:** GASB 63 amended previous guidance on deferred revenues in the Government-Wide Financial Statements to include deferred outflow of resources, which is the consumption of net assets by the government that is applicable to a future reporting period and deferred inflow of resources, which is acquisition of net assets by the government that is applicable to a future reporting period.

**Compensated Absences:** The District contracts with all employees on an annual basis. Vacation is not paid out upon termination. There is a payout for sick leave for those persons who retire from the district. Beginning July 1, 2006, employees are eligible to receive payment upon their retirements of a portion of their unused sick leave. Employees with 1 to 10 years of employment can accumulate up to 45 days of sick leave. Employees with 11-20 years of employment can accumulate up to 55 days of sick leave and employees with 21 years or more of employment can accumulate up to 65 days of sick leave. Upon retirement, an employee can collect \$50 per day for one half of their unused sick leave up to the maximum allowable based on their years of service.

**Long-term Obligations:** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond issuance costs are reflected as a current period expense per GASB 65.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity:** Restricted fund balance represents amounts that are constrained either by: 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.

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**NOTE 1. Summary of Significant Accounting Policies** (continued)

*D. Assets, Liabilities and Net Position or Equity (continued)*

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority.

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body or a subordinate high-level body or official whom the governing body has delegated.

Unassigned fund balance is the residual classification for the general fund and represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes.

The District's policy is to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Reclassifications:** Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Pensions:** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are reported by ERB, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*E. Revenues*

**State Equalization Guarantee:** School districts in the State of New Mexico receive a 'state equalization guarantee distribution' which is defined as "that amount of money distributed to each school district to insure that the school district's operating revenue, including its local and federal revenues as defined (in Chapter 22, Section 825, NMSA 1978) is at least equal to the school district's program costs.

A school district's program costs are determined through the use of various formulas using 'program units' which take into consideration: 1) early childhood education; 2) basic education; 3) special education; 4) bilingual-multicultural education; 5) size of district, etc. Payment is made from the public school fund under the authority of the Director of Public School Finance. The District received \$4,379,903 in state equalization guarantee distributions during the year ended June 30, 2017.

**Tax Revenues:** The District receives mill levy and ad-valorem tax revenues primarily for debt service and capital outlay purposes. Property taxes are assessed on January 1st of each year and are payable in two equal installments, on November 10th of the year in which the tax bill is prepared and April 10th of the following year with the levies becoming delinquent 30 days (one month) thereafter. The District recognizes tax revenues in the period for which they are levied in the government-wide financial statements. The District records only the portion of the taxes considered 'measurable' and 'available' in the governmental fund financial statements. The District recognized \$- in tax revenues in the governmental fund financial statements during the year ended June 30, 2016. Descriptions of the individual debt service and capital outlay funds contained in these financial statements include information regarding the authority for the collection and use of these taxes.

STATE OF NEW MEXICO  
Clayton Municipal Schools  
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June 30, 2017

**NOTE 1. Summary of Significant Accounting Policies** (continued)

**Transportation Distribution:** School districts in the State of New Mexico receive student transportation distributions. The transportation distribution is allocated to each school district in accordance with formulas developed by the State Transportation Director and the Director of Public School Finance. The funds shall be used only for the purpose of making payments to each school district for the to-and-from school transportation costs of students in grades K-12 attending public school within the school district. The District received \$617,420 in transportation distributions during the year ended June 30, 2017.

**Instructional Materials:** The District had allocations allowed by the State for the current year of \$28,759. The full amount of allocations used to purchase textbooks during the year was \$28,759. Allocations received and utilized are reflected in revenue and expenditures of the General Fund.

**NOTE 2. Stewardship, Compliance and Accountability**

*Budgetary Information*

Budgets for the General, Special Revenue, Debt Service, and Capital Projects Funds are prepared by management and are approved by the local Board of Education and the School Budget and Planning Unit of the Department of Education. Auxiliary student activity accounts are not budgeted.

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, such appropriated balance is legally restricted and is therefore presented as a designated portion of fund balance.

Actual expenditures may not exceed the budget on a line item basis, i.e., (each budgeted expenditure must be within budgeted amounts). Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a 'series' this may be accomplished with only local Board of Education approval. If a transfer between 'series' or a budget increase is required, approval must also be obtained from Public School Finance Division.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures. The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In April or May, the superintendent submits to the Board of Education a proposed operating budget of the fiscal year commencing the following July. The operating budget includes proposed expenditures and the means of financing them, and has approval by the Department of Education.
2. In May or June, the budget is approved by the Board of Education.
3. The school board meeting is open for the general public unless a closed meeting has been called.
4. The superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the school board and the State of New Mexico Department of Education.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.
6. Budgets for the General, Special Revenue, Debt Service and Capital Projects Funds are adopted on a basis not consistent with generally accepted accounting principles (GAAP). Encumbrances are treated the same way for GAAP purposes and for Budget purposes.

The School Board may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. New Mexico Administrative Code 6.20.2.9 prohibits a school district from exceeding budgetary control at the function level.

The District is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

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**NOTE 3. Cash and Temporary Investments**

State statutes authorize the investment of the District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed state investment requirements as of June 30, 2017.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The collateral pledged is listed on Schedule 1 of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, District or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

**Deposits**

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for a least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

<u>Type</u>	<u>First National Bank</u>	<u>Farmers &amp; Stockmans Bank</u>
Checking	\$ 180,925	\$ 1,498,016
CDs	-	-
Total Deposits	180,925	1,498,016
Less: FDIC Coverage	(180,925)	(250,000)
Uninsured Amount	-	1,248,016
50% Collateral requirement	-	624,008
Pledged Securities (Schedule 1)	394,555	850,000
(Over) Under collateralized	<u>\$ (394,555)</u>	<u>\$ (225,992)</u>
 Custodial Credit Risk-Deposits		
Account Balance	\$ 1,678,941	
FDIC Insured	430,925	
Collateral:		
Collateral held by the pledging bank, not in the District's name	1,244,555	
Uninsured and uncollateralized	<u>3,461</u>	
Total Deposits	<u>\$ 1,678,941</u>	



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**NOTE 3. Cash and Temporary Investments (continued)**

Custodial credit risk is the risk that in the event of a bank failure, the governments' deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$1,248,016 of the District's bank balance of \$1,678,941 was exposed to custodial credit risk.

Reconciliation of Cash and Temporary Investments

Governmental Funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 1,075,306
Cash and cash equivalents per Exhibit D	19,467
Add outstanding items	<u>584,168</u>
Bank balance of deposits	<u>\$ 1,678,941</u>

Custodial Credit Risk- Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk. New Mexico State Statutes require collateral pledged to be delivered for the securities underlying an overnight repurchase agreement, or a joint safekeeping receipt to be issued to the District for at least one hundred and two percent of the fair value of the securities underlying overnight repurchase accounts invested with the institution.

At June 30, 2017, the District had no investment balances therefore there was no custodial credit risk.

The New MexiGrow Local Governmental Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10-P and Section 6-10-10.1 A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 19078, as the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

Interest Rate Risk and Credit Rating-Investment in State Treasurer's LGIP

The District does not have a formal policy limiting investment maturities to manage its exposure to fair value losses from increasing interest rates. The District had no investments at June 30, 2017.

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**NOTE 4. Accounts Payables and Accrued Expenses**

Accounts payable and Accrued Expenses as of June 30, 2017, are as follows:

Accrued Payroll-held checks	\$ -
Payable to suppliers	\$ 264,771
Total Accounts Payable and Accrued Expenses	<u>\$ 264,771</u>

**NOTE 5. Interfund Receivables, Payables, and Transfers**

The District records temporary interfund receivables and payables to enable the funds to operate until grant monies are received.

The composition of interfund balances during the year ended June 30, 2017 is as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 378,943	\$ 1,500
Transportation	1,500	-
Title I	-	36,412
IDEA B Entitlement	-	82,838
IDEA B Preschool	-	3,676
Fresh Fruits & Vegetables	-	2,436
Teacher/Principal Training	-	8,088
Capital Improvements Bond Building	-	245,493
	<u>\$ 380,443</u>	<u>\$ 380,443</u>

**NOTE 6. Accounts Receivable**

Accounts Receivable as of June 30, 2017, are as follows:

	General Fund	Capital Improvements SB-9 (Local)	Capital Improvements Bond Building	Other Governmental Funds	Total
Property taxes	\$ 1,793	\$ 7,669	\$ -	\$ -	\$ 9,462
Due from other governments:					
Title I	-	-	-	36,412	36,412
Idea B Entitlement	-	-	-	82,838	82,838
Idea-B Preschool	-	-	-	3,676	3,676
Fresh Fruits & Vegetables	-	-	-	2,436	2,436
Teacher/Principal Training	-	-	-	10,000	10,000
NM Reads to Lead	-	-	-	36	36
Capital Improvements Bond Building	-	-	501,115	-	501,115
	<u>\$ 1,793</u>	<u>\$ 7,669</u>	<u>\$ 501,115</u>	<u>\$ 135,398</u>	<u>\$ 645,9757</u>

The above receivables are deemed 100% collectible.

**Unearned Revenues**

Unearned revenue represents advances on grants which have not been earned at June 30, 2017.

Other	Governmental	Total
Federal Awards	\$ -	\$ -

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**NOTE 7. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2017, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	Balance June 30, 2016	Additions and Transfers In	Deletions and Transfers Out	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 467,890	\$ -	\$ -	\$ 467,890
Construction in Progress	<u>20,325</u>	<u>289,105</u>	<u>20,325</u>	<u>289,105</u>
Total capital assets not being depreciated	<u>488,215</u>	<u>289,105</u>	<u>20,325</u>	<u>756,995</u>
Capital assets being depreciated:				
Land improvements	625,330	-	-	625,330
Buildings and improvements	7,379,212	-	-	7,379,212
Equipment, Fixtures & Furniture	1,338,771	38,536	-	1,377,307
Vehicles	<u>1,038,097</u>	<u>178,676</u>	<u>-</u>	<u>1,216,773</u>
Total capital assets being depreciated	<u>10,381,410</u>	<u>217,212</u>	<u>-</u>	<u>10,598,622</u>
Total capital assets	<u>10,869,625</u>	<u>506,317</u>	<u>20,325</u>	<u>11,355,617</u>
Less accumulated depreciation:				
Land improvements	221,984	30,356	-	252,340
Buildings and improvements	3,484,293	139,384	7,988	3,615,689
Equipment, Fixtures & Furniture	1,204,304	19,457	6,137	1,217,624
Vehicles	<u>614,996</u>	<u>69,083</u>	<u>-</u>	<u>684,079</u>
Total accumulated depreciation	<u>5,525,577</u>	<u>258,280</u>	<u>14,125</u>	<u>5,769,733</u>
Total capital assets net of depreciation	<u>\$ 5,344,048</u>	<u>\$ 248,037</u>	<u>\$ 6,200</u>	<u>\$ 5,585,884</u>

Capital assets, net of accumulated depreciation, at June 30, 2017 appear in the Statement of Net Position as follows:

Governmental activities	\$ 5,585,884
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Depreciation expense for the year ended June 30, 2017 was charged to the following functions and funds:

Governmental activities:	
Capital Outlay	\$ 247,968
Student Transportation	126
Unallocated	<u>(3,939)</u>
	<u>\$ 244,155</u>

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**NOTE 8. Long-term Debt**

The following is a summary of the long-term debt and the activity for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
GO Bonds 2017	-	549,540	-	549,540	-
Accrued compensated absences	\$ 43,678	\$ 13,275	\$ 16,701	\$ 40,252	-
	\$ 43,678	\$ 562,815	\$ 16,701	\$ 589,540	-

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2018	525,000	-	525,000
2019	275,000	-	275,000
2020	275,000	-	275,000
2021	280,000	-	280,000
2022	215,000	-	215,000
2023 and thereafter	2,430,000	-	2,430,000
Total	\$ 4,000,000	\$ -	\$ 4,000,000

**NOTE 9. Risk Management**

The District is a member of the New Mexico Public School Insurance Authority (NMPSIA). The Authority was created to provide comprehensive core insurance programs by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The District pays an annual premium to the NMPSIA based on claim experience and the status of the pool. The Risk Management Program includes Workers Compensation, General and Automobile Liability, Automobile Physical Damage, and Property and Crime coverage. Also included under the risk management program are Boiler, Machinery and Student Accident Insurance.

The NMPSIA provides coverage for up to a maximum of \$500,000,000 for each property damage claim with a \$750 deductible to each building. General liability coverage is afforded to all employees, volunteers and school board members and the limit is subject to the NMSA Tort Claims Act on a per occurrence basis. The automobile and property liability limit is subject to the provisions of the Tort Claims Act. The crime limit is \$250,000 per occurrence for Faithful Performance. A limit of \$250,000 applies to Depositor's Forgery, Credit Card Forgery, and Money Orders. A limit of \$100,000 applies to Money and Securities, which include a \$750 deductible.

In case the NMPSIA's assets are not sufficient to meet its liability claims, the agreement provides that subscribers, including the District, cannot be assessed additional premiums to cover the shortfall. As of June 30, 2017, there have been no claims that have exceeded insurance coverage.

**NOTE 10. Other Required Individual Fund Disclosures**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. The IDEA-B Entitlement fund has a deficit fund balance of \$3,664.

Deficit Fund Balances will be funded by general fund transfers or additional grant funds.

- B. Excess Expenditures over budget.

None

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**NOTE 11. Pension Plan- Educational Retirement Board**

**Plan description.** The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at [https://www.nmerb.org/Annual\\_reports.html](https://www.nmerb.org/Annual_reports.html).

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

The Plan is considered a component unit of the State's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

**Benefits benefit** – A member's retirement benefit is determined by a formula which includes three component parts: 1) the member's final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

**Summary of Plan Provisions for Retirement Eligibility** – For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

The member's age and earned service credit add up to the sum of 80 or more,

The member is at least sixty-seven years of age and has five or more years of earned service credit, or

The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and

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**NOTE 11. Pension Plan - Educational Retirement Board (continued)**

subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.

The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits

The member's age is 67, and has earned 5 or more years of service credit.

**Forms of Payment** – The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

**Benefit Options** – The Plan has three benefit options available.

**Option A – Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.

**Option B – Joint 100% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

**Option C – Joint 50% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

**Disability Benefit** – An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found totally disabled. The disability benefit is equal to 2% of the member's Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

**Cost of Living Adjustment (COLA)** – All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

Tier 1 membership is comprised of employees who became members prior to July 1, 2010

Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013

Tier 3 membership is comprised of employees who became members on or after July 1, 2013

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**NOTE 11. Pension Plan - Educational Retirement Board (continued)**

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

**Refund of Contributions** – Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

**Contributions** – For the fiscal year ended June 30, 2017 and 2016 educational employers contributed to the Plan based on the following rate schedule.

<b>Fiscal Year</b>	<b>Date Range</b>	<b>Wage Category</b>	<b>Member Rate</b>	<b>Employer Rate</b>	<b>Combined Rate</b>	<b>Increase Over Prior</b>
2017	7-1-16 to 6-30-17	Over \$20K	10.70%	13.90%	24.60%	0.00%
2017	7-1-16 to 6-30-17	\$20K or less	7.90%	13.90%	21.80%	0.00%
2016	7-1-15 to 6-30-16	Over \$20K	10.70%	13.90%	24.60%	0.00%
2016	7-1-15 to 6-30-16	\$20K or less	7.90%	13.90%	21.80%	0.00%

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2017 and 2016, the District paid employee and employer contributions of \$268,182 and \$348,366, which equal the amount of the required contributions for each fiscal year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – At June 30, 2017, the District reported a liability of \$7,725,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the District’s proportion was .10851%, which was an decrease of 0.00116% from its proportion measured as of June 30, 2015.

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Clayton Municipal Schools  
Notes to the Financial Statements  
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**NOTE 11. Pension Plan - Educational Retirement Board (continued)**

For the year ended June 30, 2017, the District recognized pension expense of \$455,252. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 33,516	\$ 73,478
Changes of assumptions	157,258	-
Net difference between projected and actual earnings on pension plan investments	461,140	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	345,891
District contributions subsequent to the measurement date	392,840	-
<b>Total</b>	<b>\$ 1,044,754</b>	<b>\$ 419,369</b>

\$392,840 reported as deferred outflows of resources related to pensions resulting from District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ (115,297)
2019	32,215
2020	203,174
2021	112,454
2022	-



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**NOTE 11. Pension Plan - Educational Retirement Board (continued)**

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	Composed of 3.0% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.
Investment Rate of Return	7.75% compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75 real rate of return. The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.
Average of Expected Remaining Service Lives	3.77 years.
Mortality	<b>Healthy males:</b> Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB. <b>Healthy females:</b> Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012. <b>Disabled males:</b> RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB. <b>Disabled females:</b> RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB. <b>Active members:</b> RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.
Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Cost-of-living increases	2% per year, compounded annually.
Payroll growth	3.5% per year (with no allowance for membership growth).
Contribution accumulation	5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future).
Disability Incidence	Approved rates applied to eligible members with at least 10 years of service.

The actuarial assumptions and methods are set by the Plan's Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on June 12, 2015 in conjunction with the six-year actuarial experience study period ending June 30, 2014. At that time, the Board adopted several assumption changes, which included a decrease in the annual wage inflation rate from 4.25% to 3.75%, and changes to the mortality rates, disability rates, and retirement rates for members who joined the plan after June 30, 2010. In addition, the board lowered the population growth rate assumption to zero.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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June 30, 2017

**NOTE 11. Pension Plan - Educational Retirement Board (continued)**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return</b>
Equities	35%	
Fixed income	28	
Alternatives	36	
Cash	1	
Total	100%	7.75%

*Discount rate.* A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2016. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.75%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

*Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the *District’s* proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the *District’s* proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
District’s proportionate share of the net pension liability	\$ 10,232,075	\$ 7,725,371	\$ 5,645,516

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in separately issued NMERB’S financial reports. The reports can be found on NMERB’s Web site at [https://www.nmerb.org/Annual\\_reports.html](https://www.nmerb.org/Annual_reports.html).

Payables to the pension plan. At June 30, 2017, the District had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2017.

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Clayton Municipal Schools  
Notes to the Financial Statements  
June 30, 2017

**NOTE 12. Post-Employment Benefits-State Retiree Healthcare Plan**

*Plan description:* Clayton Municipal Schools contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for the employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RCHA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RCHA or viewed on their website at [www.nmrhca.stat.nm.us](http://www.nmrhca.stat.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirement for the contributions can be changed by the New Mexico State Legislature. Employers that chose to become participating employers after January 1, 1998 are required to make contributions to the RHCA fund in the amount determined to be appropriate by the Board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plan 3, 4 or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention office member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15 (G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The District's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$55,741, \$61,258, and \$61,050, respectively, which equal the required contributions for each year.

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Clayton Municipal Schools  
Notes to the Financial Statements  
June 30, 2017

**NOTE 13. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amount, if any, to be immaterial.

The District is involved in various claims and lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the District.

**NOTE 14. Non-Cash Federal Assistance**

The District receives USDA Commodities for use in sponsoring the National School Lunch programs. The value of commodities received for the year ended June 30, 2017 was \$16,188.

**NOTE 15. Surety Bond**

The officials and certain employees of the District are covered by a surety bond as required by Section 12-6-7, NMSA, and 1978 Compilation.

**NOTE 16. Memorandum of Understanding - REC**

**Purpose:** To allow the submission of a consolidated application to the State Department of Education for certain funds granted to the State of New Mexico by the USDE under the Education of the Handicapped Act, Part B, PL 94-142 among others.

**Participants:** High Plains Regional Education Cooperative and Clayton Municipal Schools

**Responsible Party for Operation and Audit:** Regional Education Cooperative

**Beginning and Ending Date of Agreement:** July 1, 2016 until the end of any fiscal year during which the school gives notice of intent to terminate.

**Total Actual Amount Paid:** The REC administered Medicaid billing services to the District totaling \$34,884.

**NOTE 18. Related Party Disclosure**

A board member is the Vice President of the District's financial institution and the Superintendent's spouse is a director of the District's financial institution.

**NOTE 19. Commitments**

A Contract with FBT Architects, AIA, Ltd through Cooperative Education Services for \$336,425 to create schematics for upgrades at three schools. As of June 30, 2017, the District paid \$245,493 leaving a balance due of \$90,932.

A Contract with Stoven Construction entered into in May 2017 for \$2,754,049 for upgrades at three schools. As of June 30, 2017, the District paid \$0, leaving a balance due of \$2,754,049.

A Contract with J3 Systems entered into in May 2017 for \$1,219,417 for Clayton HS and Alvis Elementary roof replacement. As of June 30, 2017, the District paid \$0, leaving a balance due of \$1,219,417.

A Contract with L&K Electric entered into in May 2017 for \$34,525 for Alvis Elementary lighting. As of June 30, 2017, the District paid \$17,262.64 leaving a balance due of \$17,262.64.

**NOTE 20. Subsequent Events Review**

Clayton Municipal Schools has evaluated subsequent events through September 9, 2017, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

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**NONMAJOR GOVERNMENTAL FUNDS**

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**STATE OF NEW MEXICO  
CLAYTON MUNICIPAL SCHOOLS  
SPECIAL REVENUE FUNDS**

The Special Revenue Funds are used to account for Federal, State and Local funded grants. These grants are awarded to the District with the purpose of accomplishing specific educational tasks. Grants accounted for in the Special Revenue Funds include:

**Food Service** – This fund is utilized to account for Federal and Local sources of income relating to the food service programs. The Food Service Fund is segregated into two categories, one being the Federal funds and the other being Non-Federal funds. Federal funds consist of the National School Lunch Program, which is administered by the State of New Mexico for the purpose of making breakfast and lunch available to all school children and to encourage the domestic consumption of agricultural commodities and other food components. The Non-Federal funds consist of income derived from Snack-Bar facilities located in the District. Authority for the creation of this fund is NMSA 22-13-13. No minimum balance required according to legislation.

**Athletics** - This fund is used to account for fees generated at athletic activities throughout the School District. The gate receipts are obtained from the general public and are expended in this fund. The authority for creation of this fund is 6.20.2 NMAC. No minimum balance required according to legislation.

**Non-Instructional Support**- This fund is used to account for fundraising activities and related expenditures throughout the School District. The receipts are obtained from the general public and are expended in this fund. The authority for creation of this fund is 6.20.2 NMAC. No minimum balance required according to legislation.

**Title I** – This fund’s major objectives are to provide supplemental educational opportunities for academically disadvantaged children in the area where they reside. Campuses are identified for program participation by the percentage of students on free or reduced price lunches. Any school with a free and reduced price lunch percentage that is equal to or greater than the total district percentage becomes eligible for program participation. Any student whose test scores fall below District established criteria and who is attending a Title I campus is eligible to receive Title I services. Poverty is the criteria that identify a campus; education need determines the students to be served. Federal revenues accounted for in this fund are allocated to the District through the New Mexico Department of Education. Authority for the creation of this fund is Part A of Chapter I of Title I of Elementary and Secondary Education Act (ESEA) of 1965, as amended, Public Law 103-383. No minimum balance required according to legislation.

**IDEA B Entitlement and Discretionary** – The purpose of this program is to account for revenue used to help maximize the resources in meeting the objective of handicapped children. The federal revenues in this fund are received from and administered by the New Mexico Department of Education. Authority for the creation of this fund is Part B of the Handicapped Act, Public Law 105-17. No minimum balance required according to legislation.

**IDEA-B Preschool** - The objective of the Assistance to States for the Education of Handicapped Children Program is to assist in providing free, appropriate public education to all handicapped children from ages three to five. Federal revenues accounted for in this fund are allocated to the District through the New Mexico Department of Children, Youth and Families. Authority for creation of this fund is Public Law 105-17. No minimum balance required according to legislation.

**Fresh Fruits & Vegetables** - The purpose of this program is to purchase fresh fruits and vegetables to be made available at no charge to the students, at a minimum of twice a week. Federal revenues accounted for in this fund are allocated to the District through the United States Department of Agriculture Fresh Fruit and Vegetable Program. Authority for creation of this fund is Public Law 105-17. No minimum balance required according to legislation.

**Teacher Principal Training** – The purpose of this fund is to improve the skills of teachers and the quality of instruction in mathematics and science and also to increase the accessibility of such instruction to all students. Authority for creation of this fund is Title II of the Elementary and Secondary Education Act of 1965 as amended, Public Law 103-382. No minimum balance required according to legislation.

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**STATE OF NEW MEXICO  
CLAYTON MUNICIPAL SCHOOLS  
SPECIAL REVENUE FUNDS**

**Dual Credit Fund-** The objective is to account for the monies received from NMHU for the purpose of dual credit college enrollment for qualified high school seniors. Authority is based on Memorandum of Understanding between the District, the schools within the agreements, and LEA. No minimum balance required according to legislation.

**NM Reads to Lead-** The purpose of this state grant is to provide for the implementation of the K-3 reading initiative activities as specified by the legislation. The fund was created by grant provisions.

**DWI Local Grant-** The objective is to account for funds to be utilized to educate students about DWI. The formation of this fund is provided by local city/county funding. No minimum balance required according to legislation.

**CYFD and Adult Food Program** – The objective is to account for grant funds to provide meals and snacks to children enrolled in day care. This program is in accordance with the federal regulation 7 CFR part 226.6(h) and is monitored by the NM Children, Youth and Families Department. No minimum balance required according to legislation.

**Private Direct Grants** – To account for a private grant used to provide monies for the Yellow Jacket year book.. The formation of this fund is provided by local city/county funding. No minimum balance required according to legislation.

**Saturday School** – To account for a private grant used to provide Saturday tutoring services to students. The formation of this fund is provided by local city/county funding. No minimum balance required according to legislation.

**These funds are on a reimbursement basis and therefore there are no reverting funds.**

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**STATE OF NEW MEXICO  
CLAYTON MUNICIPAL SCHOOLS  
CAPITAL PROJECTS FUNDS**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The District has these separate funds classified as non-major Capital Projects Funds as follows:

**Capital Improvements H-33** – To maintain school facilities owned by the Department of Education and operated by the Board of Education agencies and transfer these facilities to local agencies where appropriate. These funds are authorized by the Elementary and Secondary Education Act of 1965, Title VIII, Section 8008 as amended. No minimum balance required according to legislation.

**Capital Improvements SB-9** – To account for erecting, remodeling, making additions to and furnishing of school buildings, or purchasing or improving school grounds or any combination thereof as identified by the local school board. Financing is provided by the State of New Mexico’s State Equalization Matching. Authority for the creation of this fund is NMSA 22-25-1 to 22-25-10. No minimum balance required according to legislation.

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
June 30, 2017

<b>ASSETS</b>	Food Service	Athletics	Non-Instructional Support	Title I
<i>Current Assets</i>				
Cash and cash equivalents	\$ 32,262	\$ 4,312	\$ 92,487	\$ -
Accounts receivable				
Taxes	-	-	-	-
Due from other governments	-	-	-	36,412
Other accounts receivable	-	-	-	-
Interfund receivable	-	-	-	-
Prepaid Assets	-	-	-	-
Inventory	9,628	-	-	-
	<u>41,890</u>	<u>4,312</u>	<u>92,487</u>	<u>36,412</u>
<i>Total assets</i>	<u>\$ 41,890</u>	<u>\$ 4,312</u>	<u>\$ 92,487</u>	<u>\$ 36,412</u>
 <b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued salaries and benefits	-	-	-	-
Interfund payable	-	-	-	36,412
Unearned revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,412</u>
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,412</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-property taxes	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total deferred inflow of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <b>Fund Balance</b>				
Non-spendable	9,628	-	-	-
Restricted for:				
General Fund	-	-	-	-
Special Revenue Funds	32,262	4,312	92,487	-
Capital Projects Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Committed for:				
General Fund	-	-	-	-
Special Revenue Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Assigned for:				
General Fund	-	-	-	-
Special Revenue Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Unassigned for:				
General Fund	-	-	-	-
	<u>41,890</u>	<u>4,312</u>	<u>92,487</u>	<u>-</u>
<i>Total fund balances</i>	<u>41,890</u>	<u>4,312</u>	<u>92,487</u>	<u>-</u>
<i>Total liabilities, deferred inflow of resources and fund balances</i>	<u>\$ 41,890</u>	<u>\$ 4,312</u>	<u>\$ 92,487</u>	<u>\$ 36,412</u>



**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
 June 30, 2017

<b>ASSETS</b>	Dual Credit Fund	NM Reads to Lead	DWI Local Grant	CYFD & Adult Food Program
<i>Current Assets</i>				
Cash and cash equivalents	\$ -	\$ -	\$ 1,000	\$ 2,004
Accounts receivable				
Taxes	-	-	-	-
Due from other governments	-	36	-	-
Other accounts receivable	-	-	-	-
Interfund receivable	-	-	-	-
Prepaid Assets	-	-	-	-
Inventory	-	-	-	-
	-	-	-	-
<i>Total assets</i>	\$ -	\$ 36	\$ 1,000	\$ 2,004
 <b>LIABILITIES AND FUND BALANCE</b>				
<i>Current Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued salaries and benefits	-	-	-	-
Interfund payable	-	-	-	-
Unearned revenue	-	-	-	-
	-	-	-	-
<i>Total liabilities</i>	-	-	-	-
 <b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-property taxes	-	-	-	-
	-	-	-	-
<i>Total deferred inflow of resources</i>	-	-	-	-
<i>Fund Balances</i>				
Fund Balance				
Non-spendable	-	-	-	-
Restricted for:				
General Fund	-	-	-	-
Special Revenue Funds	-	36	1,000	2,004
Capital Projects Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Committed for:				
General Fund	-	-	-	-
Special Revenue Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Assigned for:				
General Fund	-	-	-	-
Special Revenue Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Unassigned for:				
General Fund	-	-	-	-
	-	-	-	-
<i>Total fund balances</i>	-	36	1,000	2,004
<i>Total liabilities and fund balances</i>	\$ -	\$ 36	\$ 1,000	\$ 2,004





**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2017**

	Food Service	Athletics	Non Instructional Support	Title I
<i>Revenues</i>				
Taxes	\$	\$	\$	\$
Taxes levied/assessed	-	-	-	-
Local sources				
Tuition	-	-	-	-
Investment income	54	64	310	-
Food services	31,896	-	-	-
District activities	-	26,667	138,701	-
Other revenue	-	-	50	-
State sources				
Unrestricted Grants	-	-	-	-
Restricted Grants	-	-	-	-
Federal sources				
Unrestricted Grants	-	-	-	-
Unrestricted -state passthrough	-	-	-	-
Restricted Grants	-	-	-	-
Restricted -state passthrough	197,670	-	-	94,985
Department of Interior	-	-	-	-
Other items	-	-	-	-
<i>Total revenues</i>	<u>229,620</u>	<u>26,731</u>	<u>139,061</u>	<u>94,985</u>
<i>Expenditures:</i>				
Current:				
Instruction	-	-	132,038	90,045
Support Services				
Students	-	43,446	-	-
Instruction	-	-	-	-
General Administration	-	-	-	-
School Administration	-	-	-	4,940
Central Services	-	-	-	-
Operation & maintenance of plant	-	-	-	-
Student transportation	-	-	-	-
Other Support Services	-	-	-	-
Operation of Non-instructional Services				
Food services operations	241,555	-	-	-
Capital outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>241,555</u>	<u>43,446</u>	<u>132,038</u>	<u>94,985</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(11,935)</u>	<u>(16,715)</u>	<u>7,023</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Transfers	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net changes in fund balances</i>	(11,935)	(16,715)	7,023	-
<i>Fund balances - beginning of year</i>	53,825	21,027	85,464	-
Restatement-Permanent Cash Transfer	-	-	-	-
<i>Fund balances-beginning of year, restated</i>	53,825	21,027	85,464	-
<i>Fund balances - end of year</i>	<u>\$ 41,890</u>	<u>\$ 4,312</u>	<u>\$ 92,487</u>	<u>\$ -</u>

Statement A-2  
(Page 1 of 2)

IDEA-B Entitlement	IDEA-B Preschool	Fresh Fruits & Vegetables	Teacher/Principal Training
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	1,924
-	-	-	-
-	-	-	-
-	-	-	-
158,349	8,444	6,531	16,288
-	-	-	-
-	-	-	-
<u>158,349</u>	<u>8,444</u>	<u>6,531</u>	<u>18,212</u>
148,258	8,444	-	16,300
7,511	-	-	-
-	-	-	-
-	-	-	-
6,244	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	6,531	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>162,013</u>	<u>8,444</u>	<u>6,531</u>	<u>16,300</u>
<u>(3,664)</u>	<u>-</u>	<u>-</u>	<u>1,912</u>
-	-	-	-
-	-	-	-
<u>(3,664)</u>	<u>-</u>	<u>-</u>	<u>1,912</u>
-	-	-	-
-	-	-	-
<u>\$ (3,664)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,912</u>

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

	Dual Credit	NM Reads to Lead	DWI Local Grant	CYFD & Adult Food Program
<i>Revenues:</i>				
Taxes	\$	\$	\$	\$
Taxes levied/assessed	-	-	-	-
Local sources				
Tuition	-	-	-	-
Investment income	-	-	-	-
Food services	-	-	-	-
District activities	-	-	-	-
Other revenue	-	-	-	-
State sources				
Unrestricted Grants	-	-	-	-
Restricted Grants	1,187	36	-	-
Federal sources				
Unrestricted Grants	-	-	-	-
Unrestricted -state passthrough	-	-	-	-
Restricted Grants	-	-	-	-
Restricted -state passthrough	-	-	-	-
Department of Interior	-	-	-	-
Other items	-	-	-	-
<i>Total revenues</i>	1,187	36	-	-
<i>Expenditures:</i>				
Current:				
Instruction	1,187	-	-	-
Support Services				
Students	-	-	-	-
Instruction	-	-	-	-
General Administration	-	-	-	-
School Administration	-	-	-	-
Central Services	-	-	-	-
Operation & maintenance of plant	-	-	-	-
Student transportation	-	-	-	-
Other Support Services	-	-	-	-
Operation of Non-instructional Services				
Food services operations	-	-	-	-
Capital outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	1,187	-	-	-
<i>Excess (deficiency) of revenues over expenditures</i>	-	36	-	-
<i>Other financing sources (uses)</i>				
Transfers	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net changes in fund balances</i>	-	36	-	-
<i>Fund balances - beginning of year</i>	-	-	1,000	2,004
Restatement-Permanent Cash Transfer	-	-	-	-
<i>Fund balances-beginning of year, restated</i>	-	-	1,000	2,004
<i>Fund balances - end of year</i>	\$ -	\$ 36	\$ 1,000	\$ 2,004



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**FIDUCIARY FUNDS**

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
Agency Funds

**Agency Funds** – To account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Clayton Municipal Schools has the following funds classified as Agency Funds:

**Activity** – To account for assets held by the District until distributed to various organizations at the schools.

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**AGENCY FUNDS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**For the Year Ended June 30, 2017**

Statement B

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<b>ASSETS</b>				
Junior High	\$ 1,602	\$ -	\$ 75	\$ 1,527
High School	16,365	62,828	61,253	17,940
Total Assets	<u>\$ 17,967</u>	<u>\$ 62,828</u>	<u>\$ 61,328</u>	<u>\$ 19,467</u>
<b>LIABILITIES</b>				
Deposits held for others	<u>17,967</u>	<u>62,828</u>	<u>61,328</u>	<u>19,467</u>
Total Liabilities	<u>\$ 17,967</u>	<u>\$ 62,828</u>	<u>\$ 61,328</u>	<u>\$ 19,467</u>

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PENSION LIABILITY  
REQUIRED SUPPLEMENTARY INFORMATION

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**STATE OF NEW MEXICO**  
 Clayton Municipal Schools  
 Required Supplementary Information  
 June 30, 2017

**SCHEDULE OF PROPORTONATE SHARE OF THE NET PENSION LIABILITY**  
 Educational Retirement Board (ERB) Plan  
 Last 10 fiscal years\*

	<b>2017</b>	<b>2016</b>	<b>2015</b>
District's proportion of net pension liability (asset)	0.10735%	0.10851%	0.11415%
District's proportionate share of the net pension liability (asset)	\$ 7,725,371	\$ 7,028,482	\$ 6,513,085
District's covered-employee payroll	\$ 2,514,845	\$ 2,962,671	\$ 3,146,454
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	307.19%	237.23%	207.00%
Plan fiduciary net position as a percentage of total pension liability	61.58%	63.97%	66.54%

\* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Clayton Municipal Schools is not available prior to fiscal year 2015, the year the statement's requirements became effective.

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**STATE OF NEW MEXICO**  
 Clayton Municipal Schools  
 Required Supplementary Information  
 June 30, 2017

**SCHEDULE OF CONTRIBUTIONS**  
**EDUCATIONAL RETIREMENT BOARD (ERB) Pension PLAN**  
**LAST 10 FISCAL YEARS\***

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 392,840	\$ 422,922	\$ 424,136
Contributions in relation to the contractually required contribution	\$ 392,840	\$ 422,922	\$ 424,136
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's Covered-employee payroll	\$ 2,514,845	\$ 2,962,671	\$ 3,051,968
Contributions as a percentage of covered-employee payroll	15.62%	14.28%	13.90%

\* Governmental Accounting Standards Board Statement No.68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information of Clayton Municipal Schools is not available prior to fiscal year 2015, the year the statement's requirements became effective.

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**STATE OF NEW MEXICO**  
Clayton Municipal Schools  
Required Supplementary Information  
For the Year Ended June 30, 2017

**Notes to Required Supplementary Information**

**For the Year Ended June 30, 2017**

*Changes of benefit terms and assumptions.* There were no benefit or assumption changes adopted since the last actuarial valuation. However, the actual cost of living adjustment (COLA) was less than the expected 2.0%, which resulted in a net \$138 million decrease in the unfunded actuarial accrued liability.

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## **SUPPORTING SCHEDULES**

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY**  
June 30, 2017

Schedule I

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2017	Name and Location of Safekeeper
Farmers & Stockmens Bank	FHLB LOC 361500009 0% 8/31/2016	\$ 850,000	Federal Home Loan Bank of Dallas Irving, TX
First National Bank	FHLB, GNMA Pool # 782500 36241KX52, 5.5%, 12/15/2023	172,434	Federal Home Loan Bank of Dallas Irving, TX
First National Bank	FHLB, RED RIVER, NM 756874BF9, 4.0%, 08/15/2033	<u>222,122</u>	Federal Home Loan Bank of Dallas Irving, TX
	Total Collateral Pledged	<u>\$ 1,244,555</u>	

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS**  
June 30, 2017

Schedule II

Deposit or Investment Account Type	Farmers & Stockmans Bank	First National Bank	Total
Operational Interest Bearing Checking	\$ 1,492,178	\$ -	\$ 1,492,178
Athletics Interest Bearing Checking	5,838	-	5,838
Now Interest Bearing Checking	-	53,500	53,500
Student Activity Interest Bearing Checking	-	127,426	127,426
Certificate of Deposit	-	-	-
<b>Total On Deposit</b>	<b>1,498,016</b>	<b>180,925</b>	<b>1,678,941</b>
Reconciling Items	(568,699)	(15,470)	(584,169)
<b>Reconciled Balance June 30, 2017</b>	<b>\$ 929,317</b>	<b>\$ 165,455</b>	<b>\$ 1,094,773</b>

Reconciliation to financial statements:

Cash and cash equivalents:

Total cash and cash equivalents per Statement of Position	\$ 1,075,306
Total cash and cash equivalents per Fiduciary Statement of Assets and Liabilities	<u>19,467</u>
	<u>\$ 1,094,773</u>

**STATE OF NEW MEXICO**  
**Clayton Municipal Schools**  
**Cash Reconciliation**  
**June 30, 2017**

	<u>Operational Account</u>	<u>Transportation Account</u>	<u>Instructional Materials Account</u>	<u>Food Services Account</u>	<u>Athletics Account</u>
Cash per June 30, 2016	\$ 699,540	\$ 7,553	\$ 21,438	\$ 52,098	\$ 21,027
Add:					
2016-17 revenues	4,484,441	624,973	28,759	213,432	26,731
Interfund balances	<u>(375,346)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash available	4,808,635	632,526	50,197	265,530	47,758
Less:					
2016-17 expenditures	<u>(4,681,435)</u>	<u>(628,750)</u>	<u>(43,077)</u>	<u>(233,268)</u>	<u>(43,446)</u>
Cash June 30, 2017	<u>\$ 127,200</u>	<u>\$ 3,776</u>	<u>\$ 7,120</u>	<u>\$ 32,262</u>	<u>\$ 4,312</u>
Bank balance end of year	\$ 689,353	\$ 3,776	\$ 7,120	\$ 32,262	\$ 5,838
Outstanding checks	<u>(562,153)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,526)</u>
Cash June 30, 2017	<u>\$ 127,200</u>	<u>\$ 3,776</u>	<u>\$ 7,120</u>	<u>\$ 32,262</u>	<u>\$ 4,312</u>

Fiduciary Account	Federal Flowthrough	State Flowthrough	Local Flowthrough	State Direct
\$ 103,432	\$ (111,351)	\$ (108,733)	\$ 9,211	\$ 3,004
201,840	262,438	109,920	-	-
-	133,450	-	-	-
305,272	284,537	1,187	9,211	3,004
(193,319)	(284,537)	(1,187)	-	-
\$ 111,953	\$ -	\$ -	\$ 9,211	\$ 3,004
\$ 127,426	\$ -	\$ -	\$ 9,211	\$ 3,004
(15,473)	-	-	-	-
\$ 111,953	\$ -	\$ -	\$ 9,211	\$ 3,004

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**STATE OF NEW MEXICO**  
 Clayton Municipal Schools  
 Cash Reconciliation  
 June 30, 2017

Schedule III  
 (Page 2 of 2)

	<u>Capital Impr Bond Building</u>	<u>Capital Impr HB33</u>	<u>Capital Impr SB9</u>	<u>Capital Impr SB9 Local</u>	<u>Total</u>
Cash per June 30, 2016	\$ -	\$ 489,529	\$ 436,610	\$ -	\$ 1,623,358
Add:					
2016-17 revenues	3,597	441	-	280,090	6,236,662
Interfund balances	<u>241,896</u>	<u>-</u>	<u>(436,610)</u>	<u>436,610</u>	<u>-</u>
Total cash available	245,493	489,970	-	716,700	7,860,020
Less:					
2016-17 expenditures	<u>(245,493)</u>	<u>(304,686)</u>	<u>-</u>	<u>(101,032)</u>	<u>(6,760,230)</u>
Cash June 30, 2017	<u>\$ -</u>	<u>\$ 185,284</u>	<u>\$ -</u>	<u>\$ 615,668</u>	<u>\$ 1,099,790</u>
Bank balance end of year	\$ -	\$ 185,284	\$ -	\$ 615,668	\$ 1,678,942
Outstanding checks	-	-	-	-	(579,152)
Cash June 30, 2017	<u>\$ -</u>	<u>\$ 185,284</u>	<u>\$ -</u>	<u>\$ 615,668</u>	<u>\$ 1,099,790</u>

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**COMPLIANCE SECTION**

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**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*  
INDEPENDENT AUDITORS REPORT**

Timothy Keller  
New Mexico State Auditor  
The Office of Management and Budget and  
The Governing Board  
Clayton Municipal Schools  
Clayton, 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 the governmental activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons of the General fund and Special Revenue funds, of the Clayton Municipal Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Clayton Municipal Schools' basic financial statements, and the combining and individual fund statements of Clayton Municipal Schools, presented as supplemental information, and have issued our report thereon dated September 9, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Clayton Municipal Schools' internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clayton Municipal Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Clayton Municipal Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies that we considered to be material weaknesses.

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A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. The significant deficiencies are described as 2015-003, 2016-002, 2017-001 and 2017-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Clayton Municipal Schools' financial statements are free of 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.

### **Clayton Municipal Schools' Response to Findings**

Clayton Municipal Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Clayton Municipal Schools' responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Clayton Municipal Schools' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Clayton Municipal Schools' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Precision Accounting LLC*

Precision Accounting LLC  
Albuquerque, New Mexico  
September 9, 2017

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**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**FINDINGS AND RESPONSES**  
Year Ended June 30, 2017

**A. FINDINGS AND RESPONSES-FINANCIAL STATEMENT AUDIT**

**2015-003 Noncompliance with Payroll (Significant Deficiency) – Repeated and Revised**

CONDITION: During our test work of payroll we noted that the District has set up their payroll pay schedules where, the 12- month District employees were being paid on the 20th of every month for the services performed for that month. The District made progress with this this finding by adjusting payroll periods at year end. This corrective action was done in June 2017; however, the finding remained in effect for all months of the fiscal year up to the end of June.

CRITERIA: NMSA 1978 § 30-23-2 states “Paying or receiving public money for services not rendered consist of knowingly making or receiving payment made from public funds where such payment purports to be for wages, salary or remuneration for personal services which have not in fact been rendered.”

CAUSE: Unknown

EFFECT: By having the current payroll payment schedule set up the District is at risk of making payroll disbursements for services that are not rendered. This could potentially result in payroll expenditures that are erroneous. The District may potentially be noncompliant with NMSA 1978 § 30-23-2.

RECOMMENDATION: The District is encouraged to change the payroll payment schedule so that the District is not at risk for paying employees for services that are not rendered. For instance the District can pay employees on the last day of the month for the services performed for that month.

CLIENT RESPONSE: Effective June 2017, The District's payroll department moved to a semi-monthly payroll and will continue with a semi-monthly payroll for all employees in order to eliminate prepayment for services.

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**FINDINGS AND RESPONSES**  
Year Ended June 30, 2017

**2016 - 002 Activity Funds – Transactions not being reconciled to the General Ledger (Significant Deficiency)**  
**Repeated and Revised**

CONDITION: In the Activity Funds test work; we noted that there eight (8) activity fund accounts that did not reconcile to the general ledger. We noted discrepancies between the transaction information recorded and the general ledger balance. The amount of the discrepancies totaled \$232.00 across all the activity funds. The District did not make progress with this finding despite reassigning the work to another district employee.

CRITERIA: PSAB 18 Student Activity and Athletics Manual of Procedures, section 6-10-2. NMSA 1978 states that “financial records of student activity funds must be in accordance with general accepted accounting principles and an adequate internal control structure established and maintained, as well as audit trails, in the same manner as the school district’s regular funds.”

CAUSE OF CONDITION: It appears that the District is not reconciling the balances of the activity funds to the general ledger every month.

EFFECT OF CONDITION: The District does not appear to be in compliance with PSAB 18. Additionally, inaccurate record keeping of the Activity Funds could result in over spent accounts.

RECOMMENDATION: The District should evaluate and ensure that activity fund accounts are being reconciled to the general ledger on a regular basis to ensure accounting practices for activity funds are in accordance with PSAB 18. All personnel and staff involved in the Activity Funds should be re-trained to understand their roles and responsibilities under PSAB 18.

CLIENT RESPONSE: The Business Manager will require the responsible employee to enter the revenues and expenditures into the accounting system directly to avoid discrepancies between the general ledger and spreadsheet. This will be implemented as of September 30, 2017.

**STATE OF NEW MEXICO**  
**CLAYTON MUNICIPAL SCHOOLS**  
**FINDINGS AND RESPONSES**  
Year Ended June 30, 2017

**2017-001 Transportation Contractor Overpaid (Significant Deficiency)**

**CONDITION:** During our test work, we noted that a District Bus Contractor terminated their bus lease contract prior to the required twelve year recapture period. As a result of the premature termination, the contractor was overpaid \$16,202 according to the Transportation Department Calculations. The Board made a decision to not pursue the repayment of the funds from the Bus Contractor which will result in future reductions in the District's transportation funding until the full \$16,202 is recouped by the Transportation Department thereby resulting in the District having to use operational monies to cover the shortfalls in transportation costs.

**CRITERIA:** NMSA 1978, section 22-8-27 states "in the event a school bus service contract is terminated, the state superintendent shall calculate the remaining number of years that a bus could be used based on a twelve-year replacement cycle and calculate a value reflecting that use. The local school district shall deduct an amount equal to that value from any remaining amount due on the contract or if no balance remains on the contract, the contractor shall reimburse the school district an amount equal to the value calculated."

**CAUSE OF CONDITION:** The Board made a decision not to pursue repayment from the bus contractor on early termination of the contract.

**EFFECT OF CONDITION:** Future reductions in the District's transportation funding until the full \$16,202 is recouped by the Transportation Department thereby resulting in the District having to use operational monies to cover the shortfalls in transportation costs.

**RECOMMENDATION:** Given the unstable economic environment in New Mexico Government, the District's Board should consider the future impact of their decision to the District and make prudent business decisions in the best interest of the District in accordance with NMSA 1978, section 22-8-27

**CLIENT RESPONSE:** Effective August 31, 2017, the CMS Board of Education will follow NMSA 1978, section 22-8-27 which states "in the event a school bus service contract is terminated, the state superintendent shall calculate the remaining number of years that a bus could be used based on a twelve-year replacement cycle and calculate a value reflecting that use. The local school district shall deduct an amount equal to that value from any remaining amount due on the contract or if no balance remains on the contract, the contractor shall reimburse the school district an amount equal to the value calculated."

**STATE OF NEW MEXICO  
CLAYTON MUNICIPAL SCHOOLS  
FINDINGS AND RESPONSES  
Year Ended June 30, 2017**

**2017-002 Failure to immediately notify the State Auditor of misappropriation of assets (Significant Deficiency)**

CONDITION: During our test work, we noted that a District filed a police report for the misappropriation of District Athletic Uniforms by a Coach. As a result of our audit, the District did notify the State Auditor's Office but not in timely manner. The report alleges the Coach gave the uniforms to students without permission as these athletic uniforms were to be used for another two (2) years. The District made an attempt to contact the students and get the uniforms back but estimate that the cost of the uniforms not returned is approximately \$800. A letter received by the District Attorney in August 2018 stated that the District Attorney had made a decision not to pursue the case.

CRITERIA: NMSA 12-6-6 requires the entity to report all instances of misappropriation, abuse, fraud, illegal acts, non-compliance or internal control deficiencies, to the State Auditor's Office.

CAUSE OF CONDITION: Although the District notified local law enforcement, the District was unaware of the requirement to notify the State Auditor. The District did not notify the State Auditor's Office in a timely manner of the alleged misappropriation.

EFFECT OF CONDITION: The District was unable to retrieve approximately \$800 worth of athletic uniforms and the District appears to be non-compliant with the NMSA 2.2.2.

RECOMMENDATION: In addition to notifying the appropriate law enforcement, the District should notify the State Auditor's Office immediately of any alleged or suspected misappropriation.

CLIENT RESPONSE: Effective August 31, 2017, The District was made aware of notifying the State Auditor's requirement to report instances of misappropriation, abuse, fraud, illegal acts, noncompliance or internal control deficiencies to the State Auditor's Office. The District has notified the State Auditor's Office and received confirmation from them of the notification for the misappropriation of student uniforms and will immediately report all instances that apply to NMSA 12-6-6 going forward.

**B. PRIOR YEAR AUDIT FINDINGS**

2015-001 Activity Funds Receipts and Disbursements (Significant Deficiency)-Cleared  
2015-003 Noncompliance with Payroll (Significant Deficiency)-Repeated and Revised  
2015-005 Noncompliance with Service Contract Bids (Significant Deficiency)-Cleared  
2015-006 General Ledger Posting (Significant Deficiency)-Cleared  
2016-001 Internal Controls within the expenditure process (Significant Deficiency)- Cleared  
2016-002 Activity Funds- Transactions not being reconciled to the General Ledger (Significant Deficiency)  
Repeated and Revised  
2016-003 Non-compliance with State Audit Rule (Control Deficiency) Cleared



**STATE OF NEW MEXICO**  
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**OTHER DISCLOSURES**  
Year Ended June 30, 2017

**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

Management is responsible for the content of the report and financial statements. It would be preferred and desirable for the District to prepare its own GAAP-basis financial statements; although the District has a Business Manager who is capable, with guidance, of reviewing and approving the financial statements, it is felt that the District's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

**B. EXIT CONFERENCE**

The contents of this report were discussed on August 31, 2017. The following individuals were in attendance:

Clayton Municipal Schools

Rebecca Hatch, Board Member  
Craig Reeves, Audit Committee Member  
Stacy Diller, Superintendent  
Myah Crisp, Administrative Bookkeeper  
Jennifer Gonzales, Board Member  
Cheryl Garcia, Audit Committee Member

Precision Accounting LLC

Melissa R. Santistevan, CPA, CFE, CGMA, CICA  
Alexandra Yebra, Senior Accountant