

State of New Mexico

# HAGERMAN MUNICIPAL



FOR YEAR ENDED JUNE 30, 2017

ANNUAL FINANCIAL REPORT

*The vision of the Hagerman Municipal Schools is to create a learning community that provides quality education to all students.*

**RICE & ASSOCIATES**

CERTIFIED PUBLIC ACCOUNTANTS

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
AUDIT REPORT  
For The Year Ended June 30, 2017  
(with Auditor's Report Thereon)

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
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STATE OF NEW MEXICO  
Hagerman Municipal Schools  
Official Roster  
Year Ended June 30, 2017

Board of Education

<u>Name</u>	<u>Title</u>
Mr. Chad Hamill	President
Mr. Christopher Villa	Vice-President
Ms. Lois Stephens	Secretary
Mr. Destry Moss	Member
Ms. Heidi Gray	Member

School Officials

Mr. Rickey Williams	Superintendent
Ms. Cherryl Andrews	Director of Business & Finance

*Rice and Associates, C.P.A.*

AUDITING  
BOOKKEEPING  
(505) 292-8275

CERTIFIED PUBLIC ACCOUNTANTS  
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Albuquerque, NM 87112

TAX PLANNING  
TAX PREPARATION  
FAX (505) 294-8904

**INDEPENDENT AUDITOR'S REPORT**

Mr. Tim Keller  
New Mexico State Auditor  
and  
Board of Education  
Hagerman Municipal Schools  
Hagerman, 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 for the General, Cafeteria, IDEA-B Entitlement, Medicaid and Kindergarten 3-Plus Funds of the Hagerman Municipal Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Hagerman Municipal Schools basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Hagerman Municipal Schools non-major governmental and fiduciary funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017 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 School 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 School 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hagerman Municipal Schools, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparisons for the General, Cafeteria, IDEA-B Entitlement, Medicaid and Kindergarten 3-Plus Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental and fiduciary funds of the Hagerman Municipal Schools, as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters

##### *Required Supplementary Information*

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the Schedules I and II and the notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*Other Information*

Our audit was conducted for the purpose of forming opinions on the Hagerman Municipal Schools financial statements, the combining and the individual fund financial statements, and the budgetary comparisons. The Schedule of Cash Receipts and Disbursements - All Funds by School District Classification is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Assets and Liabilities - All Agency Funds is the responsibility of management and were derived from and relates 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 basis financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Cash Receipts, Disbursements - All Funds by School District Classification fairly states, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2017 on our consideration of the Hagerman 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 the Hagerman Municipal Schools internal control over financial reporting and compliance.



Albuquerque, New Mexico  
October 19, 2017

**FINANCIAL STATEMENTS**

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Net Position  
June 30, 2017

Statement 1  
Page 1 of 2

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 1,268,793
Accounts receivable	3,699
Due from grantor	220,424
Inventory	<u>7,249</u>
Total current assets	<u>1,500,165</u>
Non-current assets	
Land (non-depreciable)	77,083
Capital assets (depreciable)	17,464,141
Less accumulated depreciation	<u>(7,956,629)</u>
Total non-current assets	<u>9,584,595</u>
Total assets	<u>11,084,760</u>
 <b>Deferred outflows of resources</b>	
Actuarial experience in Net Pension Liability	32,754
Investment experience in Net Pension Liability	450,659
Change in proportion in Net Pension Liability	333,177
Change in assumption in Net Pension Liability	153,683
Post measurement date contributions	<u>419,887</u>
Total deferred outflows of resources	<u>1,390,160</u>
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 12,474,920</u></b>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Net Position  
June 30, 2017

Statement 1  
Page 2 of 2

**LIABILITIES**

Current liabilities	
Accounts payable	\$ -
Accrued interest payable	7,889
Current portion of long-term liabilities	<u>180,000</u>
Total current liabilities	<u>187,889</u>
Long-term obligations:	
Net pension liability	7,549,778
Non-current portion of long-term liabilities	<u>555,000</u>
Total long-term liabilities	<u>8,104,778</u>
Total liabilities	<u>8,292,667</u>

**Deferred inflows of resources**

Actuarial experience in Net Pension Liability	71,808
Investment experience in Net Pension Liability	-
Change in proportion in Net Pension Liability	<u>76,451</u>
Total deferred inflows of resources	<u>148,259</u>

**NET POSITION**

Net investment in capital assets	8,849,595
Restricted for:	
Cafeteria fund (inventory)	7,249
Special grants	407,236
Capital outlay	270,358
Debt service	219,663
State mandated reserves	1,744
Unrestricted	<u>(5,721,851)</u>
Total net position	<u>4,033,994</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u><u>\$ 12,474,920</u></u></b>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Activities  
Year Ended June 30, 2017

Statement 2

<u>Functions/Programs</u>	Program Revenues				Net (Expenses) Revenue and Changes Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>EXPENSES:</b>					
Governmental activities:					
Direct instruction	\$ 3,481,788	\$ 12,369	\$ 579,603	\$ -	\$ (2,889,816)
Instructional support	2,339,840	1,625	553,705	48,008	(1,736,502)
Food services	293,890	17,963	297,696	-	21,769
Depreciation - unallocated	505,024	-	-	-	(505,024)
Interest on long-term obligations	14,938	-	-	-	(14,938)
Total governmental activities	6,635,480	31,957	1,431,004	48,008	(5,124,511)
General revenues:					
Taxes					
Property taxes, levied for general purposes					16,285
Property taxes, levied for capital projects					72,499
Property taxes, levied for debt service					198,016
Oil and gas taxes, general purposes					526
Oil and gas taxes, capital projects					2,105
Oil and gas taxes, debt service					5,410
Federal and State aid not restricted to specific purpose					
General					4,136,594
Federal					24,789
Interest and investment earnings					956
Sub-total, general revenues					4,457,180
Change in net position					(667,331)
Net position - beginning of year					5,233,968
Restatement					(532,643)
Net position - beginning of year - restated					4,701,325
<b>Net position - end of year</b>					<b>\$ 4,033,994</b>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Balance Sheet - All Governmental Funds  
June 30, 2017

Statement 3  
Page 1 of 2

	General	Cafeteria	IDEA-B Entitlement	Medicaid	Kindergarten 3 Plus	Bond Building
<b>ASSETS</b>						
Cash on deposit	\$ 384,344	\$ 163,210	\$ -	\$ 61,895	\$ -	\$ 122,324
Accounts receivable, collectible	187	-	-	-	-	-
Due from grantor	-	-	50,044	-	43,393	-
Due from other funds	220,424	-	-	-	-	-
Inventory, at cost	-	7,249	-	-	-	-
	<u>-</u>	<u>7,249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><b>\$ 604,955</b></u>	<u><b>\$ 170,459</b></u>	<u><b>\$ 50,044</b></u>	<u><b>\$ 61,895</b></u>	<u><b>\$ 43,393</b></u>	<u><b>\$ 122,324</b></u>
<b>LIABILITIES</b>						
Due to other funds	\$ -	\$ -	\$ 50,044	\$ -	\$ 43,393	\$ -
Accounts payable	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>50,044</u>	<u>-</u>	<u>43,393</u>	<u>-</u>
<b>FUND BALANCE</b>						
Nonspendable	-	7,249	-	-	-	-
Restricted for:						
Special revenue grants	9,296	163,210	-	61,895	-	-
Capital outlay	-	-	-	-	-	122,324
Debt service	-	-	-	-	-	-
State mandated cash reserves	1,744	-	-	-	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	593,915	-	-	-	-	-
	<u>593,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>604,955</u>	<u>170,459</u>	<u>-</u>	<u>61,895</u>	<u>-</u>	<u>122,324</u>
Total liabilities and fund balance	<u><b>\$ 604,955</b></u>	<u><b>\$ 170,459</b></u>	<u><b>\$ 50,044</b></u>	<u><b>\$ 61,895</b></u>	<u><b>\$ 43,393</b></u>	<u><b>\$ 122,324</b></u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Balance Sheet - All Governmental Funds  
June 30, 2017

	Capital Improvements SB-9	Local Capital Improvements SB-9	Debt Service	Other Governmental	Total
<b>ASSETS</b>					
Cash on deposit	\$ -	\$ 283,964	\$ 217,099	\$ 35,957	\$ 1,268,793
Accounts receivable, collectible	-	948	2,564	-	3,699
Due from grantor	56,068	-	-	70,919	220,424
Due from other funds	-	-	-	-	220,424
Inventory, at cost	-	-	-	-	7,249
 Total assets	 <u><b>\$ 56,068</b></u>	 <u><b>\$ 284,912</b></u>	 <u><b>\$ 219,663</b></u>	 <u><b>\$ 106,876</b></u>	 <u><b>\$ 1,720,589</b></u>
<b>LIABILITIES</b>					
Due to other funds	\$ 56,068	\$ -	\$ -	\$ 70,919	\$ 220,424
Accounts payable	-	-	-	-	-
 Total liabilities	 <u>56,068</u>	 <u>-</u>	 <u>-</u>	 <u>70,919</u>	 <u>220,424</u>
<b>FUND BALANCE</b>					
Nonspendable	-	-	-	-	7,249
Restricted for:					
Special revenue grants	-	-	-	35,957	270,358
Capital outlay	-	284,912	-	-	407,236
Debt service	-	-	219,663	-	219,663
State mandated cash reserves	-	-	-	-	1,744
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	593,915
 Total fund balance	 <u>-</u>	 <u>284,912</u>	 <u>219,663</u>	 <u>35,957</u>	 <u>1,500,165</u>
 Total liabilities and fund balance	 <u><b>\$ 56,068</b></u>	 <u><b>\$ 284,912</b></u>	 <u><b>\$ 219,663</b></u>	 <u><b>\$ 106,876</b></u>	 <u><b>\$ 1,720,589</b></u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position  
June 30, 2017

Statement 4

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

Total fund balances - governmental funds		\$ 1,500,165
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds		
The cost of capital assets	17,541,224	
Accumulated depreciation	<u>(7,956,629)</u>	
		9,584,595
Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds		
Deferred outflows/inflows		1,241,901
Long-term and certain other liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year-end consist of:		
Net pension liability		(7,549,778)
Bonds Payable		(735,000)
Interest Payable		<u>(7,889)</u>
Total net position - governmental funds		<u><u>\$ 4,033,994</u></u>

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



STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - All Governmental Funds  
Year Ended June 30, 2017

Statement 5  
Page 1 of 2

	General	Cafeteria	IDEA-B Entitlement	Medicaid	Kindergarten 3 Plus	Bond Building
<b>REVENUES</b>						
Property taxes	\$ 16,285	\$ -	\$ -	\$ -	\$ -	\$ -
Oil and gas taxes	526	-	-	-	-	-
Charges for services	1,625	17,963	-	-	-	-
Local sources	51,799	3,426	-	-	-	-
State sources	4,398,124	-	-	-	71,687	30,930
Federal sources	24,789	280,308	131,363	81,981	-	-
Earnings from investments	111	15	-	-	-	795
	<u>4,493,259</u>	<u>301,712</u>	<u>131,363</u>	<u>81,981</u>	<u>71,687</u>	<u>31,725</u>
Total revenues						
<b>EXPENDITURES</b>						
Current:						
Direct instruction	2,691,586	-	114,456	-	67,660	-
Instructional support	2,100,053	-	16,907	20,086	4,027	5,412
Food services	-	279,928	-	-	-	-
Capital outlay	-	-	-	-	-	405,908
Debt service:						
Bonds	-	-	-	-	-	-
Interest	-	-	-	-	-	-
	<u>4,791,639</u>	<u>279,928</u>	<u>131,363</u>	<u>20,086</u>	<u>71,687</u>	<u>411,320</u>
Total expenditures						
Net change in fund balance	(298,380)	21,784	-	61,895	-	(379,595)
Fund balance beginning of year	903,335	148,675	-	-	-	233,812
Restatement	-	-	-	-	-	268,107
Fund balance beginning of year - restated	903,335	148,675	-	-	-	501,919
Fund balance end of year	<u>\$ 604,955</u>	<u>\$ 170,459</u>	<u>\$ -</u>	<u>\$ 61,895</u>	<u>\$ -</u>	<u>\$ 122,324</u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - All Governmental Funds  
Year Ended June 30, 2017

Statement 5  
Page 2 of 2

	Capital Improvements SB-9	Local Capital Improvements SB-9	Debt Service	Other Governmental	Total
<b>REVENUES</b>					
Property taxes	\$ -	\$ 72,499	\$ 198,016	\$ -	\$ 286,800
Oil and gas taxes	-	2,105	5,410	-	8,041
Charges for services	-	-	-	12,369	31,957
Local sources	-	-	-	36,171	91,396
State sources	56,068	48,008	-	168,617	4,773,434
Federal sources	-	-	-	280,010	798,451
Earnings from investments	-	22	11	2	956
	<u>56,068</u>	<u>122,634</u>	<u>203,437</u>	<u>497,169</u>	<u>5,991,035</u>
Total revenues					
<b>EXPENDITURES</b>					
Current:					
Direct instruction	-	-	-	312,813	3,186,515
Instructional support	6,471	46,341	1,978	138,565	2,339,840
Food services	-	-	-	13,962	293,890
Capital outlay	49,597	57,087	-	12,979	525,571
Debt service:					
Bonds	-	-	180,000	-	180,000
Interest	-	-	9,983	-	9,983
	<u>56,068</u>	<u>103,428</u>	<u>191,961</u>	<u>478,319</u>	<u>6,535,799</u>
Total expenditures					
Net change in fund balance	<u>-</u>	<u>19,206</u>	<u>11,476</u>	<u>18,850</u>	<u>(544,764)</u>
Fund balance beginning of year	-	265,706	208,187	17,107	1,776,822
Restatement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>268,107</u>
Fund balance beginning of year - restated	<u>-</u>	<u>265,706</u>	<u>208,187</u>	<u>17,107</u>	<u>2,044,929</u>
Fund balance end of year	<u>\$ -</u>	<u>\$ 284,912</u>	<u>\$ 219,663</u>	<u>\$ 35,957</u>	<u>\$ 1,500,165</u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances - Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2017

Statement 6

Total net change in fund balances - governmental funds \$ (544,764)

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

Capital outlays to purchase or build capital  
assets are reported in governmental funds as  
expenditures. However, for governmental  
activities those costs are shown in the statement  
of net assets and allocated over their estimated  
useful lives as annual depreciation expenses in the  
statement of activities. This is the amount by which  
capital outlays exceed depreciation in the period

Capital outlays	525,571	
Depreciation expense	(505,024)	

Excess of depreciation expense over capital outlay		20,547
--	--	--------

Governmental funds report School district pension  
contributions as expenditures. However in the Statement  
of Activities, the cost of pension benefits earned net of employee  
contributions is reported as pension expense

Pension contributions		419,887
Pension expense		(715,160)

The issuance of long-term debt (e.g. bonds) provides  
current financial resources to government funds  
while the repayment of the principal of long-term debt  
consumes the current financial resources of governmental  
funds

Proceeds of bond issue		-
Repayment of long-term debt		180,000
Decrease in delinquent property taxes		(22,886)
Interest		(4,955)
		(4,955)

Change in net position of governmental activities		<u><u>\$ (667,331)</u></u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ 15,337	\$ 15,337	\$ 16,783	\$ 1,446
Charges for services	-	-	1,625	1,625
Local sources	32,771	32,771	51,799	19,028
State sources	4,555,228	4,392,574	4,398,124	5,550
Federal sources	-	-	24,789	24,789
Earnings from investments	88	88	111	23
<b>Total revenues</b>	<b><u>\$ 4,603,424</u></b>	<b><u>\$ 4,440,770</u></b>	<b><u>\$ 4,493,231</u></b>	<b><u>\$ 52,461</u></b>
<b>EXPENDITURES</b>				
Direct instruction	\$ 3,271,173	\$ 2,974,627	\$ 2,691,586	\$ 283,041
Instructional support	2,164,579	2,298,471	2,100,053	198,418
Food services	-	-	-	-
<b>Total expenditures</b>	<b><u>\$ 5,435,752</u></b>	<b><u>\$ 5,273,098</u></b>	<b><u>\$ 4,791,639</u></b>	<b><u>\$ 481,459</u></b>
<b>BUDGETED CASH BALANCE</b>	<b><u>\$ 832,328</u></b>	<b><u>\$ 832,328</u></b>		

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Cafeteria  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for services	\$ 10,500	\$ 10,500	\$ 17,963	\$ 7,463
Local sources	-	-	3,426	3,426
Federal sources	274,890	274,890	280,308	5,418
Earnings from investments	<u>12</u>	<u>12</u>	<u>15</u>	<u>3</u>
 Total revenues	 <u><b>\$ 285,402</b></u>	 <u><b>\$ 285,402</b></u>	 <u><b>\$ 301,712</b></u>	 <u><b>\$ 16,310</b></u>
EXPENDITURES				
Food services	<u>\$ 429,981</u>	<u>\$ 429,981</u>	<u>\$ 282,671</u>	<u>\$ 147,310</u>
 Total expenditures	 <u><b>\$ 429,981</b></u>	 <u><b>\$ 429,981</b></u>	 <u><b>\$ 282,671</b></u>	 <u><b>\$ 147,310</b></u>
 BUDGETED CASH BALANCE	 <u><b>\$ 144,579</b></u>	 <u><b>\$ 144,579</b></u>		

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
IDEA-B Entitlement  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Federal sources	\$ -	\$ 158,089	\$ 105,661	\$ (52,428)
Total revenues	<u>\$ -</u>	<u>\$ 158,089</u>	<u>\$ 105,661</u>	<u>\$ (52,428)</u>
EXPENDITURES				
Direct instruction	\$ -	\$ 141,182	\$ 114,456	\$ 26,726
Instructional support	-	16,907	16,907	-
Total expenditures	<u>\$ -</u>	<u>\$ 158,089</u>	<u>\$ 131,363</u>	<u>\$ 26,726</u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Medicaid  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Federal sources	\$ 32,671	\$ 32,671	\$ 40,114	\$ 7,443
Total revenues	<u>\$ 32,671</u>	<u>\$ 32,671</u>	<u>\$ 40,114</u>	<u>\$ 7,443</u>
EXPENDITURES				
Instructional support	\$ 71,882	\$ 71,882	\$ 20,086	\$ 51,796
Total expenditures	<u>\$ 71,882</u>	<u>\$ 71,882</u>	<u>\$ 20,086</u>	<u>\$ 51,796</u>
BUDGETED CASH BALANCE	<u>\$ 39,211</u>	<u>\$ 39,211</u>		

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Kindergarten 3Plus  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
State sources	\$ 28,295	\$ 77,401	\$ 88,773	\$ 11,372
Total revenues	<u>\$ 28,295</u>	<u>\$ 77,401</u>	<u>\$ 88,773</u>	<u>\$ 11,372</u>
EXPENDITURES				
Direct instruction	\$ 21,790	\$ 73,243	\$ 67,660	\$ 5,583
Instructional support	<u>6,505</u>	<u>4,158</u>	<u>4,027</u>	<u>131</u>
Total expenditures	<u>\$ 28,295</u>	<u>\$ 77,401</u>	<u>\$ 71,687</u>	<u>\$ 5,714</u>

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



STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Statement of Fiduciary  
Assets and Liabilities - Agency Funds  
June 30, 2017

ASSETS	
Cash	\$ 186,220
Total Assets	<u>\$ 186,220</u>
LIABILITIES	
Deposits held for others	\$ 186,220
Total Liabilities	<u>\$ 186,220</u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Notes to Financial Statements  
Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hagerman Municipal Schools (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the District's accounting policies are described below.

In June 1999, the GASB unanimously approved Statement #34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. In June 2001, the GASB approved Statement No. 37, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. Statement 37 clarifies and modifies Statement No. 34 and should be implemented simultaneously with Statement No. 34. Statement No. 38 modifies, establishes and rescinds certain financial statement disclosure requirements.

The District implemented the provisions of GASB #'s 34, 37 and 38 effective July 1, 2000. As part of Statement No. 34, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, etc.). The District does not own any infrastructure assets and therefore is unaffected by this requirement.

A. Reporting Entity

Hagerman Municipal Schools provides Kindergarten, elementary, middle and secondary educational services to school age residents of the School District.

The Hagerman Municipal Schools School Board was created under the provision of Chapter 22, Article 5, Paragraph 4, New Mexico Statutes 1978 to provide public education for the children within the District. The School Board is authorized to establish policies and regulations for its own government consistent with the laws of the State of New Mexico and the regulations of the State Board of Education and the Legislative Finance Committee. The School Board is comprised of five members who are elected for terms of four years.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the District is considered a *primary government*, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally

Notes to Financial Statements (continued)

independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt. The District also has no *component units* as defined by GASB Statement No. 14 as there are no other legally separate organizations for which the elected School Board members are financially accountable. There are no other primary governments with which the School Board Members are financially accountable. There are no other primary governments with which the District has a significant relationship.

B. Basis of Presentation

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The funds of the District are classified into two categories: governmental and fiduciary. In turn, each category is divided into separate fund types.

Governmental Funds

Under the requirements of GASB 34, the District is required to present certain of its governmental funds as major funds based upon certain criteria. The major funds presented in the fund financial statements include the following (in addition to the General Fund):

General Fund - the primary operating fund of the District accounts for all financial resources, except those required to be accounted for in other funds.

Special Revenue Fund - School Lunch Fund - This program provides financing for the School Hot Lunch Program. Funding is provided from fees from patrons and USDA food reimbursements, under the National School Lunch Act of 1946, as amended, Public Law 79-396, Sections 2-12, 60 Stat. 230, 42 U.S.C. 1751 et seq.; 80 stat., 889, as amended; 84 stat. 270; and the Child Nutrition Act of 1966, as amended, Sections 4 and 10. Public Law 89-642, 80 stat. 886, 889, 42 U.S.C. 1773, 1779; Public Law 99-591, 100 stat. 3341; Public Law 100-71, 101 stat. 430.

Special Revenue Fund - IDEA-B Entitlement - To account for resources for the operation and maintenance of meeting special education needs of children with disabilities. Financing and authority is the Individual With Disabilities Act, Part B, Sec. 611, as amended; Public Law 105-17.

Notes to Financial Statements (continued)

Special Revenue Fund - Medicaid - To account for a program providing school-based screening, diagnostic services and other related health services and administrative activities in conformance with the approved Medicaid State Plan in order to improve health and developmental outcomes for children.

Special Revenue Fund - Kindergarten 3 Plus - To account for the funds used to provide additional educational time for students in Kindergarten through the third grade with at least 25 additional instructional days beginning up to two months earlier than the regular school year. Funding and Authority provided by the NM Public Education Department.

Capital Projects Fund - Bond Building - To account for resources received from the sale of general obligation bonds for the purpose of constructing and renovating school buildings.

Capital Projects Fund - Capital Improvements SB-9 - To account for resources received from State of New Mexico Severance Tax Bonds to build, remodel and equip classroom facilities.

Capital Projects Fund - Local Capital Improvements SB-9 - To account for resources received through local tax levies obtained for the purpose of building, remodeling, and equipping classroom facilities.

Debt Service Fund - To account for resources for the purpose of paying general obligation bonds and interest coupons. Funds are received from property taxes levied against property located within the school district and levied specifically for this purpose.

Agency Funds - account for assets that the government holds for others in an agency capacity. These agency funds are as follows:

School Activity Fund - accounts for assets held by the District as an agent for the individual schools and school organizations.

The District also reports additional Governmental funds as non-major. They include:

Special Revenue Funds - these funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

C. Measurement Focus and Basis of Accounting

**Government-Wide Financial Statements (GWFS)**

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the GWFS. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

## Notes to Financial Statements (continued)

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

### **Program Revenues**

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

### **Allocation of Indirect Expenses**

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The District does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function, except for that portion of depreciation that is identified as unallocated on the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

### **Fund Financial Statements (FFS)**

#### **Governmental Funds**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Any effect of interfund activity has been eliminated from the district-wide financial statements.

With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues and expenditures:

## REVENUES

Ad valorem taxes (property taxes) are susceptible to full accrual on the government wide financial statements. Property tax revenues recognize revenues net of estimated refunds and uncollectible accounts in the period for which the taxes are levied. Total delinquent property taxes are not available from the County Treasurers for the current year.

Entitlements and shared revenues (which include state equalization and state revenue sharing) are recorded as unrestricted grants-in-aid at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Sales and use taxes (which include oil/gas taxes and equipment 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.

Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

## EXPENDITURES

Salaries are recorded as paid. Salaries for nine-month employees are paid prior to the end of the fiscal year and therefore not accrued.

## OTHER FINANCING SOURCES (USES)

Transfers between funds are not expected to be repaid (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, etc.) are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

## **Fiduciary Funds**

Agency funds are custodial in nature (assets equal liabilities) and do not present results of operations or have a measurement focus. Agency funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds are used to account for assets that the District holds for others in an agency capacity.

## D. Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year.

Notes to Financial Statements (continued)

Budgets for the General, Special Revenue, Debt Service and Capital Projects Funds are adopted on a basis inconsistent with accounting principles generally accepted in the United States of America (GAAP). These budgets are prepared using the cash basis of accounting. Budgetary comparisons for the various funds in this report are on this non-GAAP budgetary basis.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 15, (unless a later date is fixed by the Superintendent of Public Instruction) the local school board submits to the School Budget Planning Unit (SBPU) of the New Mexico Department of Education an estimated budget for the school district for the ensuing fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them. All budgets submitted to the State Department of Education (SDE) by the school district shall contain headings and details as prescribed by law.
2. Prior to June 20, of each year, the proposed "operating" budget will be reviewed and approved by the SBPU and certified and approved by the local school board at a public hearing of which notice has been published by the local school board which fixes the estimated budget for the school district for the ensuing fiscal year.
3. The "operating" budget will be used by the District until they have been notified that the budget has been approved by the SBPU and the local school board. The budget shall be integrated formally into the accounting system. Encumbrances shall be used as an element of control and shall be integrated into the budget system.
4. The District shall make corrections, revisions and amendments to the estimated budgets fixed by the local school board to recognize actual cash balances and carryover funds, if any. These adjustments shall be reviewed and approved by the SBPU.
5. No school board or officer or employee of a school district shall make any expenditures or incur any obligation for the expenditure of public funds unless such expenditure or contractual obligation is made in accordance with an operating budget approved by the division, but this does not prohibit the transfer of funds between line items within a series of a budget.
6. Budget change requests are processed in accordance with Supplement 1 (Budget Preparation and Maintenance) of the Manual of Procedures Public School Accounting and Budgeting. Such changes are initiated by the school district and approved by the SBPU.
7. Legal budget control for expenditures is by function.

Notes to Financial Statements (continued)

8. Appropriations lapse at fiscal year end. Funds unused during the fiscal year may be carried over into the next fiscal year by budgeting those in the subsequent fiscal year's budget. The budget of Hagerman Municipal Schools has been amended during the current fiscal year in accordance with these procedures. The budget schedules included in the accompanying financial statements reflects the approved budget and amendments thereto.

E. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances lapse at the fiscal year end and are therefore not included as a reservation of fund balance. Authorization for the eventual expenditure will be included in the following years budget appropriations.

F. Assets, Liabilities and Fund Equity

1. **Cash & Cash Equivalents**

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.

The District is authorized under the provisions of Chapter 6, Article 10, Paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

2. **Investments**

All money not immediately necessary for the public uses of the District may be invested in:

(a) Bonds or negotiable securities of the United States, the state or any county, municipality or school district which has a taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within the last five years preceding; or

(b) Securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.

(c) In contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall



Notes to Financial Statements (continued)

be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investments.

If the District is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance (which is no less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of the deposit) from financial institutions within the geographic boundaries of the governmental unit, the District may invest its money with the New Mexico State Treasurer's short-term investment pool.

**3. Accounts Receivable**

Accounts receivable are recorded in the various governmental funds. They consist of amounts receivable from local governments relating to various grant agreements and property taxes receivable. The information required to report property taxes at full accrual was not available during the year.

Accounts receivable consist of the following:

	<u>General</u>	<u>Other Major</u>	<u>Other Governmental</u>	<u>Total</u>
Property taxes	\$ 187	\$ 3 512	\$ -	\$ 3,699
Intergovernmental	-	149,505	70,919	220,424
Other	-	-	-	-
	<u>\$ 187</u>	<u>\$ 153,017</u>	<u>\$ 70,919</u>	<u>\$ 224,123</u>

**4. Inventories**

Inventory in the Cafeteria Fund consists of purchased food and non-food items and United States Department of Agriculture (USDA) commodities. Commodities are shown at the USDA procurement cost. Costs are recorded as expenditures at the time individual inventory items are used (consumption method). Reported 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. The Commodities shown in the Cafeteria Fund total \$20,890.

**5. Capital Assets**

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. This is an increase from the \$1,000 threshold reported in prior years. This is a change in accounting estimate. All previously reported Capital Assets that do not meet the updated amount will be depreciated currently and in future

Notes to Financial Statements (continued)

periods until they are fully depreciated. Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The District does not capitalize interest in regards to its capital assets.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

Land improvements	20-50 years
Buildings & building improvements	20-50 years
Furniture & equipment	3-15 years
Auto/Vehicle	3-15 years

GASB Statement 34 requires the recording and depreciation of infrastructure assets, which include roads, bridges, traffic signals, etc. The District did not own any infrastructure assets.

The District does not capitalize computer software or software developed for internal use (if applicable) unless they exceed the \$5,000 threshold. Also, the District does not capitalize library books unless they exceed the \$5,000 threshold.

**6. Compensated Absences**

It is the District's policy not to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave or vacation.

**7. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (School District ordinances).

Notes to Financial Statements (continued)

Enabling legislation authorizes the School District to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the School District can be compelled by an external party - such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the School District Board. Those committed amounts cannot be used for any other purpose unless the School District Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the School District Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board or a School District official delegated that authority by the School District Board or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

## 8. **Restricted Net Position**

The governmental activities financial statements utilize a net assets presentation. Net positions are categorized as follows:

Net Investment in Capital Assets - This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

Restricted net position - This category reflects the portion of net position that have third party limitations on their use.

Unrestricted net position - This category reflects net position of the District not restricted for any project or other purposes.

The School 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.

## 9. **Deferred Inflows of Resources**

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources. The School District has two types of items, which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, net difference between expected and actual earnings and change in assumptions, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## 10. **Deferred Outflows of Resources**

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The School District has two types of items that qualify for reporting in this

category. Accordingly, the items, change in proportion and employer contributions subsequent to measurement date, are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources the next period.

**11. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**12. 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 the reported amounts of assets and liabilities and disclosure of contingent assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**13. 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.

Notes to Financial Statements (continued)

2. DEPOSITORY COLLATERAL

The following is the Cash on Deposit at each financial institution.

James Polk Stone Community Bank	Operational	\$ 897,925
James Polk Stone Community Bank	Activity	188,640
James Polk Stone Community Bank	Building	122,324
James Polk Stone Community Bank	Capital Improvements	230,844
James Polk Stone Community Bank	Debt Service	<u>217,099</u>
Total		<b><u>\$ 1,656,832</u></b>
Total amount on deposit		\$ 1,656,832
Outstanding checks		(201,818)
Rounding		<u>(1)</u>
Total per financial statements		<b><u>\$ 1,455,013</u></b>

At June 30, 2017, the carrying amount of the School Districts deposits was \$1,455,013 and the bank balance was \$1,656,833. Of this balance \$250,000 was covered by federal depository insurance and \$1,406,833 was covered by collateral. The remaining \$703,417 is comprised of amounts in excess of those required to be collateralized under State law.

Cash on deposit at June 30	\$ 1,656,833
Less F.D.I.C.	<u>(250,000)</u>
Uninsured Funds	1,406,833
50% Collateral Requirement	703,417
Pledged Collateral	<u>1,050,242</u>
Excess of Pledged Collateral	<b><u>\$ 346,825</u></b>

*Custodial Credit Risk - Deposits* - Custodial Credit Risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). As of June 30, \$1,406,833 of the School's bank balance of \$1,656,833 was exposed to custodial credit risk as follows:

A. Uninsured and uncollateralized	\$ 356,591
B. Uninsured and collateralized with Securities held by the pledging banks trust department, not in the Schools name	<u>1,050,242</u>
Total	<b><u>\$1,406,833</u></b>

Notes to Financial Statements (continued)

The remaining \$356,591 is comprised of amounts in excess of those required to be collateralized under State law.

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the schools 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.

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 School District for at least one half of the amount on deposit with the institution.

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. The collateral pledged is shown as follows:

<u>Independent Bankers Bank Dallas, TX</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>
FHLB #3130A1AQ1	9-26-17	\$1,000,070
University of New Mexico Gallup #914684DQ5	10-15-17	<u>50,172</u>
		<b><u>\$1,050,242</u></b>

As of June 30, the School District had the following cash and investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>
Checking accounts	<b><u>\$1,656,833</u></b>	Less than 6 months

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the School District's investment policy limits the School District's investment portfolio to maturities of less than one year.

Notes to Financial Statements (continued)

3. CAPITAL ASSETS

Capital assets balances and activity for the year ended June 30, are as follows:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Balance <u>June 30, 2017</u>
Governmental activities:					
Land	\$ 77,083	\$ -	\$ -	\$ -	\$ 77,083
Total not being depreciated	<u>77,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 77,083</u>
Construction in Progress	1,111,749	-	-	(1,111,749)	-
Buildings and improvements	14,885,210	479,438	-	810,914	16,175,562
Equipment and vehicles	2,501,122	-	-	(2,501,122)	-
Furniture and equipment	-	46,133	(13,400)	766,041	798,774
Vehicles	-	-	(11,995)	501,800	489,805
Total	<u>18,498,081</u>	<u>525,571</u>	<u>(25,395)</u>	<u>(1,534,116)</u>	<u>17,464,141</u>
Less accumulated depreciation for:					
Buildings and improvements	(6,563,122)	(445,269)	-	92,190	(6,916,201)
Equipment and vehicles	(1,915,351)	-	-	1,915,351	-
Furniture and equipment	-	(29,087)	13,400	(621,152)	(636,839)
Vehicles	-	(30,668)	11,995	(384,916)	(403,589)
Total accumulated depreciation	<u>(8,478,473)</u>	<u>(505,024)</u>	<u>25,395</u>	<u>1,001,473</u>	<u>(7,956,629)</u>
Total capital assets being depreciated	<u>10,019,608</u>	<u>20,547</u>	<u>-</u>	<u>(532,643)</u>	<u>9,507,512</u>
Net capital assets	<u>\$ 10,096,691</u>	<u>\$ 20,547</u>	<u>\$ -</u>	<u>\$ (532,643)</u>	<u>\$ 9,584,595</u>

The School District has no infrastructure as of June 30. Depreciation expense was charged to governmental activities as follows:

Unallocated	<u>\$ 505,024</u>
Total depreciation	<u>\$ 505,024</u>

The School District received \$30,930 in Capital Asset Improvements from the Public School Finance Authority.

4. LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

During the year ended June 30, the following changes occurred in the liabilities reported in the District-Wide Statement of Net Assets:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
2007 GO Bonds	\$ 110,000	\$ -	\$ (40,000)	\$ 70,000	\$ 30,000
2009 GO Bonds	185,000	-	(35,000)	150,000	45,000
2013 GO Bonds	320,000	-	(40,000)	280,000	40,000
2015 GO Bonds	<u>300,000</u>	<u>-</u>	<u>(65,000)</u>	<u>235,000</u>	<u>65,000</u>
Total	<u>\$ 915,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 735,000</u>	<u>\$ 180,000</u>



Notes to Financial Statements (continued)

Payments on the general obligation bonds are made by the debt service funds.

B. General Obligation Bonds

The general obligation bonds will be paid from taxes levied against property owners living within the School District boundaries. The School District has pledged future property taxes to repay the outstanding. Total annual principal and interest payments for all General Obligation Bonds are expected to require 100% of gross revenue in the Debt Service Fund. The annual requirements to retire general obligation bonds as of June 30, are as follows:

Date of issue - December 4, 2015  
 Original amount - \$300,000  
 Interest rate - 0.475% to 2.335%

<u>Due in Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 65,000	\$ 3,376	\$ 68,376
2019	15,000	3,041	18,041
2020	20,000	2,836	22,836
2021	20,000	2,554	22,554
2022	20,000	2,225	22,225
2023	20,000	1,857	21,857
2024	25,000	1,401	26,401
2025	25,000	860	25,860
2026	25,000	292	25,292
<b>Total</b>	<b>\$ 235,000</b>	<b>\$ 18,442</b>	<b>\$ 253,442</b>

Date of issue - June 28, 2013  
 Original amount - \$400,000  
 Interest rate - 0.235% to 1.175%

<u>Due in Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 40,000	\$ 1,133	\$ 41,133
2019	40,000	705	40,705
2020	40,000	423	40,423
2021	40,000	329	40,329
2022	40,000	235	40,235
2023	40,000	141	40,141
2024	40,000	47	40,047
<b>Total</b>	<b>\$ 280,000</b>	<b>\$ 3,013</b>	<b>\$ 283,013</b>

Date of issue - August 1, 2009  
 Original amount - \$400,000  
 Interest rate - 0.670% to 3.590%

<u>Due in Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 45,000	\$ 2,193	\$ 47,193
2019	45,000	1,458	46,458
2020	60,000	539	60,539
<b>Total</b>	<b>\$ 150,000</b>	<b>\$ 4,190</b>	<b>\$ 154,190</b>

Notes to Financial Statements (continued)

Date of issue - August 1, 2007  
 Original amount - \$400,000  
 Interest rate - 1.99% to 2.17%

<u>Due in Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 30,000	\$ 1,188	\$ 31,188
2019	40,000	433	40,433
Total	<u>\$ 70,000</u>	<u>\$ 1,621</u>	<u>\$ 71,621</u>

C. Operating Leases

The District did not have any capital or operating leases during the fiscal year.

D. Short-Term Liabilities

The District did not have any short-term liabilities during the fiscal year.

5. REVENUES

A. Property Tax Levies

The School District's property taxes are levied each year on the assessed valuation of property located in the School District as of the preceding January 1st. Mill levy rates are set by the State of New Mexico each year for the General Fund and Local SB-9 Capital Improvement Fund. Taxes are payable in two equal installments on November 10 and April 10 following the levy and become delinquent after 30 days. Taxes on real property are liens on the property on January 1 of the year for which the taxes are imposed.

B. State Equalization Guarantee

Each school district in the State of New Mexico receives 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 8-25, NMSA 1978) "is at least equal to the school district's program cost."

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-multi cultural education; (5) size, etc. Payment is made from the public school fund under the authority of the chief (director of public school finance). The District received \$4,136,594 state equalization guarantee distributions during the year ended June 30, 2017.

C. Transportation Distribution

Money in the transportation distribution of the public school fund 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 the grades K through twelve attending public school within the school district. Except in unusual circumstances as determined by the local school board and confirmed by the state transportation director, midday bus routes for early childhood education students shall not be approved for funding in excess of twenty miles one way.

Notes to Financial Statements (continued)

Money in the vocational education transportation distribution of the public school fund is used for the purpose of making payments to school districts for transportation of students to and from their regular attendance centers and the place where vocational education programs are being offered, pursuant to Section 22-16-4.1 (NMSA 1978) of the Act. The transportation distribution is allocated to each school district according to an objective formula developed by the state transportation director and the director of public school finance.

In the event the sum of the proposed transportation allocations to each school district exceeds the amounts in the transportation distribution, each school district to receive an allocation shares in a reduction in the proportion that each school district's forty-day average daily membership bears to the forty-day average daily membership of all school districts to receive allocations.

Local school boards shall negotiate school bus contracts in accordance with regulations promulgated by the state transportation director with the approval of the State Board of Education.

Local school boards, with the approval of the state transportation director, may provide additional transportation services pursuant to Section 22-16-2 NMSA 1978 to meet established program needs.

The District received \$235,622 in transportation distribution during the year ended June 30, 2017.

D. SB-9 State Match

The Director shall distribute to any school district that has imposed a tax under the Public School Capital Improvements Act (22-25-1 to 22-25-10 NMSA 1978) an amount from the public school capital improvements fund that is equal to the amount by which the revenue estimated to be received from the imposed tax as specified in Subsection B of Section 22-25-3 NMSA 1978, assuming a one hundred percent collection rate, is less than an amount calculated by multiplying the product obtained by the rate imposed in the District under the Public School Capital Improvements Act. The distribution shall be made by December 1, of each year that the tax is imposed in accordance with Section 22-25-3 NMSA 1978. Provided, however, in the event that sufficient funds are not available in the public school capital improvement funds to make the state distribution provided for in this section, the dollar per program unit figure shall be reduced as necessary.

The District received \$0 in state SB-9 matching during the year ended June 30, 2017.

E. Public School Capital Outlay

Under the provisions of Chapter 22, Article 24, a public school capital outlay fund was created. The money in the fund may be used only for capital expenditures deemed by the public school capital outlay council necessary for an adequate educational program, and the capital outlay expenditures are limited to the purchase, or construction of temporary or permanent classrooms.

The council shall approve an application for grant assistance from the fund when the council determines that:

1. A critical need exists requiring action;
2. The residents of the school district have provided all available resources to the district to meet its capital outlay requirements;
3. The school district has used its resources in a prudent manner.

4. The District is in a county or counties which have participated in the reappraisal program and the reappraised values are on the tax rolls, or will be used for the tax year 1979 as certified by the property tax division; and
5. The school district has provided insurance for buildings of the school district in accordance with the provisions of Section 13-5-3 NMSA 1978.

The council shall consider all applications for assistance from the fund and after public hearing shall either approve or deny the application. Applications for grant assistance shall only be accepted by the council after a district has complied with the provisions of this section. The council shall list all applications in order of priority and all allocations shall be made on a priority basis.

Money in the fund shall be disbursed by warrant of the Department of Finance and Administration on vouchers signed by the Secretary of Finance and Administration following certification by the council that the application has been approved.

During the year ended June 30, 2017, the District received \$- in special capital outlay funds.

F. Instructional Materials

The New Mexico State Department of Education (Department) received 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 State Board of Education "State Adopted Instructional Material" list, while thirty percent of each allocation is available for purchases directly from vendors. Beginning with the fiscal year ended June 30, 2011, Districts received their total allocation at the beginning of the fiscal year, instead of being reimbursed for purchases as was done in the prior year. During the year ended June 30, 2017, the District received \$25,908 in instructional materials allocation.

G. Federal Grants

The District receives revenues from various Federal departments (both direct and indirect) which are legally restricted to expenditures for specific purposes. These programs are reported as Special Revenue Funds. Each program operated under its own budget, which has been approved by the Federal Department or the flow-through agency (usually the New Mexico Department of Education). The various budgets are approved by the Local School Board and the New Mexico Department of Education.

The District also receives reimbursement under the National School Lunch and Breakfast Programs for its food service operations, and distributions of commodities through the New Mexico Human Services Department.

6. CASH OVERDRAFTS

The cash overdrafts shown in some federal, state and local projects in the special revenue fund represent expenditures made by the District which will be reimbursed by the grantor. Receivables from the grantor are presented to off-set these overdrafts.

Notes to Financial Statements (continued)

7. PECOS VALLEY REGIONAL EDUCATION CENTER NO. 8

Certain special revenue (federal) funds of the District were administered by the Pecos Valley Regional Education Center No. 8, Artesia, New Mexico. The purpose of the REC is 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 United States Department of Education. There are four schools that participate in the REC, they include Loving, Dexter, Hagerman and Lake Arthur.

These funds are audited separately by another IPA. That report may be obtained by writing to: Pecos Valley Regional Education Center No. 8, 2218 W. Grand Avenue, Artesia, New Mexico 88210.

8. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

	<u>General</u>	<u>Cafeteria</u>	<u>IDEA-B Entitlement</u>	<u>Medicaid</u>
Revenues per modified accrual basis	\$ 4,493,259	\$ 301,712	\$ 131,363	\$ 81,981
Receivables	(28)	-	-	-
Deferred revenues/ Due from grantor	-	-	(25,702)	(41,867)
Revenues per budgetary basis	<u>\$ 4,493,231</u>	<u>\$ 301,712</u>	<u>\$ 105,661</u>	<u>\$ 40,114</u>
Expenditures per modified accrual basis	\$ 4,791,639	\$ 279,928	\$ 131,363	\$ 20,086
Accounts payable	-	-	-	-
Inventory	-	2,743	-	-
Expenditures per budgetary basis	<u>\$ 4,791,639</u>	<u>\$ 282,671</u>	<u>\$ 131,363</u>	<u>\$ 20,086</u>
	<u>Kindergarten 3 Plus</u>	<u>Bond Building</u>	<u>Capital Improvements SB-9</u>	<u>Local Capital Improvements SB-9</u>
Revenues per modified accrual basis	\$ 71,687	\$ 31,725	\$ 56,068	\$ 122,634
Receivables	-	-	-	(68)
Due from grantor	17,086	-	(56,068)	-
PSFA Portion	-	(30,930)	-	-
Revenues per budgetary basis	<u>\$ 88,773</u>	<u>\$ 795</u>	<u>\$ -</u>	<u>\$ 122,566</u>
Expenditures per modified accrual basis	\$ 71,687	\$ 411,320	\$ 56,068	\$ 103,428
Accounts payable	-	-	-	-
Inventory	-	-	-	-
PSFA Portion	-	(30,930)	-	-
Expenditures per budgetary basis	<u>\$ 71,687</u>	<u>\$ 380,390</u>	<u>\$ 56,068</u>	<u>\$ 103,428</u>

Notes to Financial Statements (continued)

	<u>Debt Service</u>	<u>Non-Major Special Revenue</u>
Revenues per modified accrual basis	\$ 203,437	\$ 497,169
Receivables	(222)	-
Due from grantor	<u>-</u>	<u>(12,233)</u>
Revenues per budgetary basis	<u>\$ 203,215</u>	<u>\$ 484,936</u>
Expenditures per modified accrual basis	\$ 191,961	\$ 478,319
Accounts payable	-	-
Inventory	<u>-</u>	<u>-</u>
Expenditures per budgetary basis	<u>\$ 191,961</u>	<u>\$ 478,319</u>

9. BUDGETED ACTIVITY FUNDS

The Student Activity Funds, while budgeted under Non-Instructional Support in the financial statements, are considered for reporting purposes as Agency Funds. These monies are retained by the District in a fiduciary capacity. Monies are received from student groups and are expended for purposes determined by the students within guidelines established by the School District. The changes in those balances follow:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>
<b>ASSETS</b>				
Cash	\$ <u>172,758</u>	\$ <u>796,653</u>	\$ <u>(783,191)</u>	\$ <u>186,220</u>
Total assets	<u>\$ 172,758</u>	<u>\$ 796,653</u>	<u>\$ (783,191)</u>	<u>\$ 186,220</u>
<b>LIABILITIES</b>				
Central Office	\$ 1,103	\$ 1,501	\$ (1,251)	\$ 1,353
Elementary School	11,963	26,745	(32,128)	6,580
Middle School	2,618	19,270	(12,763)	9,125
High School	62,299	126,631	(119,927)	69,003
NMPSIA	<u>94,775</u>	<u>622,506</u>	<u>(617,122)</u>	<u>100,159</u>
Total liabilities	<u>\$ 172,758</u>	<u>\$ 796,653</u>	<u>\$ (783,191)</u>	<u>\$ 186,220</u>

10. INSURANCE COVERAGE

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; and injuries to employees; and natural disasters. The District, as a New Mexico Public School, is insured through the New Mexico Public Schools Insurance Authority (NMPSIA). Annual premiums are paid by the District to NMPSIA for coverage provided in the following areas:

Workers Compensation  
Property and Automobile Liability and Physical Damage  
Liability and Civil Rights and Personal Injury  
Contract School Bus Coverage; and  
Crime

11. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The school carries insurance for all risks listed above.

12. 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, as required to be members of the Plan, unless specifically excluded.

**Benefits provided** - 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:

Notes to Financial Statements (continued)

- 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 subsequently withdrew all contributions, and returned to work for ERB employer on or after July 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 beneficiary 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, 2011, but prior to July 1, 2013.
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013.

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 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.

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase Over Prior
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 year ended June 30, 2017, the School District paid employee and employer contributions of \$736,520, which equal the amount of the required contributions for the fiscal year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At June 30, 2017, the School District reported a liability of \$7,549,778 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 School District's proportion of the net pension liability was based on a projection of the School 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 School District's proportion was 0.10491%, which was an increase of 0.00693% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$717,374. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to Financial Statements (continued)

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 32,754	\$ 71,808
Changes in assumptions	153,683	-
Net difference between projected and actual earnings on pension plan investments	450,659	-
Changes in proportion and differences between District contributions and proportionate share of contributions	333,177	76,451
District contributions subsequent to the measurement date	<u>419,887</u>	<u>-</u>
Total	<u><b>\$1,390,160</b></u>	<u><b>\$ 148,259</b></u>

\$419,887 reported as deferred outflows of resources related to pensions resulting from the School 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	\$ 154,621
2019	253,474
2020	304,022
2021	109,898
2022	-

**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 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.

Notes to Financial Statements (continued)

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 pre-retirement 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

Notes to Financial Statements (continued)

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:

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

**Discount rate:** A single discount rate of 7.75% was used to measure the total ERB 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 pension plan members. Therefore the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection 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 School District's proportionate share of the net pension liability to changes in the discount rate.** The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the School 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%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$ 9,999,506	\$ 7,549,778	\$ 5,517,196

**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 the NMERB's Website 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 School District had no outstanding amount of contributions to the pension plan and therefore, had no payables reported at fiscal year 2017.

13. POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

*Plan Description.* Hagerman Municipal School District 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 RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employers effective date and the date of retirement; (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 post-employment healthcare plan. The report and further information can be obtained by writing to Retiree Health Care Authority, 4308 Carlisle Boulevard, Suite 104, Albuquerque, New Mexico 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 RHCA 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 RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose 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 plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer 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

Notes to Financial Statements (continued)

enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating 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, 2013, 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 Hagerman Municipal Schools contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$60,415, \$59,927 and \$55,705, respectively, which equal the required contributions for each year.

14. CONCENTRATIONS

The District depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the District is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

15. RESTATEMENT OF FUND BALANCE

The Bond Building Fund had a restatement in the amount of \$268,107 for cash held at the New Mexico Finance Authority as of June 30, 2016.

16. NET POSITION RESTATEMENT

The School District had a prior period adjustment of \$(1,534,116) in Capital Assets and \$1,001,473 in accumulated depreciation. Also, for the \$268,107 in cash held at the New Mexico Finance Authority as of June 30, 2016.

17. FUND BALANCE CLASSIFIED

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned upon the use of the resources in the governmental funds. The constraints placed on fund balances for the major governmental funds and all other governmental funds are presented here.

Fund Balances	Local							Totals
	General Fund	Cafeteria	Medicaid	Bond Building	Capital Improvements SB-9	Debt Service	Non-Major Governmental Fund	
Nonspendable:								
Interfund loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Inventory	-	7,249	-	-	-	-	-	7,249
Total nonspendable	-	7,249	-	-	-	-	-	7,249
Restricted for:								
Transportation services	-	-	-	-	-	-	-	-
Instructional materials	9,296	-	-	-	-	-	-	9,296
Capital improvements	-	-	-	122,324	284,912	-	-	407,236
Debt service payments	-	-	-	-	-	219,663	-	219,663
Athletic services	-	-	-	-	-	-	10,087	10,087
Special grants	-	-	61,895	-	-	-	25,870	87,765
Cafeteria services	-	163,210	-	-	-	-	-	163,210
State mandated cash reserve	1,744	-	-	-	-	-	-	1,744
Total restricted	11,040	163,210	61,895	122,324	284,912	219,663	35,957	899,001
Committed to:								
Other purposes	-	-	-	-	-	-	-	-
Total committed	-	-	-	-	-	-	-	-
Unassigned:	593,915	-	-	-	-	-	-	593,915
Total Fund Balances	\$ 604,955	\$ 170,459	\$ 61,895	\$ 122,324	\$ 284,912	\$ 219,663	\$ 35,957	\$ 1,500,165



**NON-MAJOR GOVERNMENTAL FUNDS**

## NON-MAJOR SPECIAL REVENUE FUNDS

**ALL FUNDS** - All funds were created by the State Department of Education.

**TITLE I** - The Title I project provides remedial instruction in the language arts for educationally deprived students in low income areas. The project is funded by the Federal Government through the New Mexico State Department of Education under the Elementary and Secondary Education Act of 1965, Title I, Chapter 1, Part A, 20 U.S.C. 2701 et Seq.

**TITLE I MIGRANT** - To account for a Federal program to implement school-wide bilingual education programs of special alternative instruction programs to improve, reform, and upgrade relevant programs and operations within an entire local educational agency, that serve a significant number of children and youth of limited English proficiency. The fund was created under the authority of Title VII, Section 7115 of the ESEA (20USC 7425).

**NEW MEXICO AUTISM PROJECT** - To account for funds provided to the School District to support the School District's implementation of the NMAP and improve outcomes for students with Autism Spectrum Disorders. Authority for the creation of this fund is Individuals with Disabilities Act, Part B, Sec. 611, as amended; Public Laws 91-230, 93-380, 94-142, 98-199, 99-457, 100-630 and 101-476; 20 USC 1401-1419, Public Law 105-17.

**IDEA-B - PRESCHOOL** - To account for monies received for the operation and maintenance of meeting the special education needs of children with disabilities. Financing and authority is the Individuals With Disabilities Act, Part B, Sec. 611, as amended; Public Law 105-17.

**IMPROVING TEACHER QUALITY** - To account for grant funds to increase student academic achievement through strategies such as improving teacher and principal quality. Financing and authority is Elementary and Secondary Education Act of 1965 as amended, Title II, Part A, Public Law 107-110.

**EQUIPMENT ASSISTANCE PROGRAM** - To account for resources received to provide funds for equipment purchases that cost over \$5,000. Funding and Authority provided by Federal Regulations at 2 C.F.R. § 200.331(a).

**REAP (RURAL EDUCATIONAL ACHIEVEMENT PROGRAM)** - To account for monies received to provide financial assistance to rural districts to carry out activities to help improve the quality of teaching and learning. Authority for this program is contained in Title VI, Part B of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by Public Law 107-110.

NON-MAJOR SPECIAL REVENUE FUNDS - CONTINUED

**RURAL VISION** - To account for revenue received from the sale of telecommunication time sold to cable networks. The New Mexico Public Education Department requires this revenue to be accounted for in a separate fund. Authorized by the School District's local school board.

**DUAL CREDIT INSTRUCTIONAL MATERIALS** - To account for resources received from House Bill 2, 2009, to be used for dual credit instructional materials through a course approved by Higher Education Department and through a college/university for which the district has an approved agreement.

**TRUANCY INITIATIVE** - To account for resources received for the purpose of personnel salary and benefits for a truancy and dropout prevention coach. Funding and Authority are provided by the NM Public Education Department, Special Appropriation Fund.

**BREAKFAST FOR ELEMENTARY STUDENTS** - To account for grant funds received to fund the Elementary Breakfast Program. Financing and authority are 6.12.9 fo the New Mexico Administrative Code (NMAC).

**TEACHER STIPEND** - To account for resources received for teacher stipends for hard to staff teacher recruitment or retention. Funding and Authority are provided by the NM Public Education Department, Special Appropriation Fund.

**ENMU GRANTS** - To account for funds from the ENMU - Roswell Gear-Up Program to provide one full-time GEAR-UP Academic Counselor at Hagerman High School.

**CITY/COUNTY GRANTS** - To account for grants received from local city and county sources. Funding provided by a grant contract in which sources will vary from year to year. Expenditures in this fund are stipulated by each individual grant contract. All private grants are subject to board approval.

**INDUSTRIAL REVENUE BONDS** - To account for local funds received for revenue in lieu of taxes due to tax incentives given to new business development within the School District's tax district. All private and local grants are subject to board approval.

**ATHLETICS FUND** - This fund provides financing for school athletic activities. Fund is provided by fees from patrons. Fund is authorized by 6-20-2 NMAC.

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Non-Major Special Revenue Funds  
Combining Balance Sheet  
June 30, 2017

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	Title I	Title Migrant	NM Autism	IDEA-B Preschool	Improving Teacher quality	Equipment Assistance Program
<b>ASSETS</b>						
Cash on deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from grantor	<u>23,247</u>	<u>3,696</u>	<u>5,248</u>	<u>933</u>	<u>3,402</u>	<u>5,936</u>
Total assets	<b><u>\$ 23,247</u></b>	<b><u>\$ 3,696</u></b>	<b><u>\$ 5,248</u></b>	<b><u>\$ 933</u></b>	<b><u>\$ 3,402</u></b>	<b><u>\$ 5,936</u></b>
<b>LIABILITIES</b>						
Cash overdraft	<u>\$ 23,247</u>	<u>\$ 3,696</u>	<u>\$ 5,248</u>	<u>\$ 933</u>	<u>\$ 3,402</u>	<u>\$ 5,936</u>
Total liabilities	<u>23,247</u>	<u>3,696</u>	<u>5,248</u>	<u>933</u>	<u>3,402</u>	<u>5,936</u>
<b>FUND BALANCES</b>						
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<b><u>\$ 23,247</u></b>	<b><u>\$ 3,696</u></b>	<b><u>\$ 5,248</u></b>	<b><u>\$ 933</u></b>	<b><u>\$ 3,402</u></b>	<b><u>\$ 5,936</u></b>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Non-Major Special Revenue Funds  
Combining Balance Sheet  
June 30, 2017

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	REAP	Rural Vision	Dual Credit	Truancy Initiative	Breakfast for Elementary Students	Teacher Stipend
<b>ASSETS</b>						
Cash on deposit	\$ -	\$ 5,354	\$ -	\$ -	\$ -	\$ -
Due from grantor	<u>103</u>	<u>-</u>	<u>-</u>	<u>10,902</u>	<u>896</u>	<u>6,206</u>
Total assets	<b><u>\$ 103</u></b>	<b><u>\$ 5,354</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 10,902</u></b>	<b><u>\$ 896</u></b>	<b><u>\$ 6,206</u></b>
<b>LIABILITIES</b>						
Cash overdraft	<u>\$ 103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,902</u>	<u>\$ 896</u>	<u>\$ 6,206</u>
Total liabilities	<u>103</u>	<u>-</u>	<u>-</u>	<u>10,902</u>	<u>896</u>	<u>6,206</u>
<b>FUND BALANCES</b>						
Restricted	<u>-</u>	<u>5,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>5,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<b><u>\$ 103</u></b>	<b><u>\$ 5,354</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 10,902</u></b>	<b><u>\$ 896</u></b>	<b><u>\$ 6,206</u></b>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Non-Major Special Revenue Funds  
Combining Balance Sheet  
June 30, 2017

	ENMU Grant	City/County Grant	IRB Fund	Athletics	Total
<b>ASSETS</b>					
Cash on deposit	\$ -	\$ 15,797	\$ 4,719	\$ 10,087	\$ 35,957
Due from grantor	<u>10,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,919</u>
Total assets	<u><b>\$ 10,350</b></u>	<u><b>\$ 15,797</b></u>	<u><b>\$ 4,719</b></u>	<u><b>\$ 10,087</b></u>	<u><b>\$ 106,876</b></u>
<b>LIABILITIES</b>					
Cash overdraft	<u>\$ 10,350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,919</u>
Total liabilities	<u>10,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,919</u>
<b>FUND BALANCES</b>					
Restricted	<u>-</u>	<u>15,797</u>	<u>4,719</u>	<u>10,087</u>	<u>35,957</u>
Total fund balance	<u>-</u>	<u>15,797</u>	<u>4,719</u>	<u>10,087</u>	<u>35,957</u>
Total liabilities and fund balance	<u><b>\$ 10,350</b></u>	<u><b>\$ 15,797</b></u>	<u><b>\$ 4,719</b></u>	<u><b>\$ 10,087</b></u>	<u><b>\$ 106,876</b></u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Non-Major Special Revenue Funds

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Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2017

	Title I	Title I Migrant	NM Autism	IDEA-B Preschool	Improving Teacher Quality	Equipment Assistance Program
<b>REVENUES</b>						
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local sources	-	-	-	-	-	-
State sources	-	-	-	-	-	-
Federal sources	141,276	63,255	7,744	6,192	20,688	18,915
Earnings from investments	-	-	-	-	-	-
Total revenues	<u>141,276</u>	<u>63,255</u>	<u>7,744</u>	<u>6,192</u>	<u>20,688</u>	<u>18,915</u>
<b>EXPENDITURES</b>						
Direct instruction	141,276	63,255	7,744	5,213	20,688	-
Instructional support	-	-	-	979	-	5,936
Food Services	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	12,979
Total expenditures	<u>141,276</u>	<u>63,255</u>	<u>7,744</u>	<u>6,192</u>	<u>20,688</u>	<u>18,915</u>
Net change in fund balance	-	-	-	-	-	-
Fund balance at beginning of year	-	-	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Non-Major Special Revenue Funds

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Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2017

	REAP	Rural Vision	Dual Credit	Truancy Initiative	Breakfast for Elementary Students	Teacher Stipend
<b>REVENUES</b>						
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local sources	-	5,354	-	-	-	-
State sources	-	-	1,511	65,000	13,962	21,494
Federal sources	21,940	-	-	-	-	-
Earnings from investment	-	-	-	-	-	-
Total revenues	<u>21,940</u>	<u>5,354</u>	<u>1,511</u>	<u>65,000</u>	<u>13,962</u>	<u>21,494</u>
<b>EXPENDITURES</b>						
Direct instruction	21,940	-	1,511	-	-	21,494
Instructional support	-	-	-	65,000	-	-
Food Services	-	-	-	-	13,962	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>21,940</u>	<u>-</u>	<u>1,511</u>	<u>65,000</u>	<u>13,962</u>	<u>21,494</u>
Net change in fund balance	-	5,354	-	-	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ 5,354</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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



STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Non-Major Special Revenue Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2017

Statement A-2  
Page 3 of 3

	ENMU Grant	City/County Grant	IRB Fund	Athletics	Total
<b>REVENUES</b>					
Charges for services	\$ -	\$ -	\$ -	\$ 12,369	\$ 12,369
Local sources	-	28,662	2,123	32	36,171
State sources	66,650	-	-	-	168,617
Federal sources	-	-	-	-	280,010
Earnings from investment	-	-	-	2	2
Total revenues	<u>66,650</u>	<u>28,662</u>	<u>2,123</u>	<u>12,403</u>	<u>497,169</u>
<b>EXPENDITURES</b>					
Direct instruction	-	12,865	1,650	15,177	312,813
Instructional support	66,650	-	-	-	138,565
Food Services	-	-	-	-	13,962
Capital outlay	-	-	-	-	12,979
Total expenditures	<u>66,650</u>	<u>12,865</u>	<u>1,650</u>	<u>15,177</u>	<u>478,319</u>
Net change in fund balance	-	15,797	473	(2,774)	18,850
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>4,246</u>	<u>12,861</u>	<u>17,107</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ 15,797</u></u>	<u><u>\$ 4,719</u></u>	<u><u>\$ 10,087</u></u>	<u><u>\$ 35,957</u></u>

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

**GENERAL FUND**

**OPERATIONAL FUND** - This fund is the chief operating fund of the School District. It is used to account for all financial resources of the School District except for those required to be accounted for in another fund.

**TRANSPORTATION FUND** - To account for resources received from the Public Education Department to be used only for eligible to and from school transportation costs.

**INSTRUCTIONAL MATERIALS FUND** - to account for resources received from the Public Education Department to be used to purchase materials used as the basis for instruction.

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Combining Balance Sheet  
General Fund  
June 30, 2017

Statement B-1

	Operational	Transporation	Instructional Materials	Total
<b>ASSETS</b>				
Cash on deposit	\$ 595,472	\$ -	\$ 9,296	\$ 604,768
Accounts receivable, collectible	187	-	-	187
Total assets	<b>\$ 595,659</b>	<b>\$ -</b>	<b>\$ 9,296</b>	<b>\$ 604,955</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Restricted	1,744	-	9,296	11,040
Unassigned	593,915	-	-	593,915
Total fund balance	595,659	-	9,296	604,955
Total liabilities and fund balance	<b>\$ 595,659</b>	<b>\$ -</b>	<b>\$ 9,296</b>	<b>\$ 604,955</b>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
General Fund  
Year Ended June 30, 2017

Statement B-2

	Operational	Transportation	Instructional Materials	Total
<b>REVENUES</b>				
Property taxes	\$ 16,285	\$ -	\$ -	\$ 16,285
Oil and gas taxes	526	-	-	526
Charges for services	1,625	-	-	1,625
Local sources	51,799	-	-	51,799
State sources	4,136,594	235,622	25,908	4,398,124
Federal sources	24,789	-	-	24,789
Earnings from investments	111	-	-	111
	<u>4,231,729</u>	<u>235,622</u>	<u>25,908</u>	<u>4,493,259</u>
<b>EXPENDITURES</b>				
Direct instruction	2,661,969	-	29,617	2,691,586
Instructional support	1,864,431	235,622	-	2,100,053
Food service	-	-	-	-
Capital outlay	-	-	-	-
	<u>4,526,400</u>	<u>235,622</u>	<u>29,617</u>	<u>4,791,639</u>
Net change in fund balance	(294,671)	-	(3,709)	(298,380)
Fund balance at beginning of year	<u>890,330</u>	<u>-</u>	<u>13,005</u>	<u>903,335</u>
Fund balance at end of year	<u>\$ 595,659</u>	<u>\$ -</u>	<u>\$ 9,296</u>	<u>\$ 604,955</u>

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
General Fund - Operational Fund  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ 15,337	\$ 15,337	\$ 16,783	\$ 1,446
Charges for services	-	-	1,625	1,625
Local sources	32,771	32,771	51,799	19,028
State sources	4,286,355	4,137,458	4,136,594	(864)
Federal sources	-	-	24,789	24,789
Earnings from investments	88	88	111	23
<b>Total revenues</b>	<b><u>\$ 4,334,551</u></b>	<b><u>\$ 4,185,654</u></b>	<b><u>\$ 4,231,701</u></b>	<b><u>\$ 46,047</u></b>
<b>EXPENDITURES</b>				
Direct instruction	\$ 3,233,078	\$ 2,942,128	\$ 2,661,969	\$ 280,159
Instructional support	1,920,796	2,062,849	1,864,431	198,418
Food services	-	-	-	-
<b>Total expenditures</b>	<b><u>\$ 5,153,874</u></b>	<b><u>\$ 5,004,977</u></b>	<b><u>\$ 4,526,400</u></b>	<b><u>\$ 478,577</u></b>
<b>BUDGETED CASH BALANCE</b>	<b><u>\$ 819,323</u></b>	<b><u>\$ 819,323</u></b>		

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
General Fund - Transportation Fund  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Local sources	-	-	-	-
State sources	243,783	235,622	235,622	-
Federal sources	-	-	-	-
Earnings from investments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u><b>\$ 243,783</b></u>	<u><b>\$ 235,622</b></u>	<u><b>\$ 235,622</b></u>	<u><b>\$ -</b></u>
<b>EXPENDITURES</b>				
Direct instruction	\$ -	\$ -	\$ -	\$ -
Instructional support	243,783	235,622	235,622	-
Food services	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u><b>\$ 243,783</b></u>	<u><b>\$ 235,622</b></u>	<u><b>\$ 235,622</b></u>	<u><b>\$ -</b></u>
BUDGETED CASH BALANCE	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>		

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

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
General Fund - Instructional Materials Fund  
Statement of Revenues and Expenditures -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Local sources	-	-	-	-
State sources	25,090	19,494	25,908	6,414
Federal sources	-	-	-	-
Earnings from investments	-	-	-	-
<b>Total revenues</b>	<b><u>\$ 25,090</u></b>	<b><u>\$ 19,494</u></b>	<b><u>\$ 25,908</u></b>	<b><u>\$ 6,414</u></b>
<b>EXPENDITURES</b>				
Direct instruction	\$ 38,095	\$ 32,499	\$ 29,617	\$ 2,882
Instructional support	-	-	-	-
Food services	-	-	-	-
<b>Total expenditures</b>	<b><u>\$ 38,095</u></b>	<b><u>\$ 32,499</u></b>	<b><u>\$ 29,617</u></b>	<b><u>\$ 2,882</u></b>
<b>BUDGETED CASH BALANCE</b>	<b><u>\$ 13,005</u></b>	<b><u>\$ 13,005</u></b>		

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

**REQUIRED SUPPLEMENTARY INFORMATION**



STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Schedule of Proportionate Share of the Net Pension Liability  
Educational Retirement Board (ERB) Pension Plan  
Last 10 Fiscal Years\*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hagerman Municipal School District's proportion of net pension liability (asset)	0.10491%	0.09798%	0.09775%
Hagerman Municipal School District's proportionate share of the net pension liability (asset)	\$ 7,549,778	\$ 6,346,426	\$ 5,577,343
Hagerman Municipal School District's covered-employee payroll	\$ 3,020,821	\$ 2,675,168	\$ 2,694,487
Hagerman Municipal School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	249.92%	237.23%	206.99%
Plan fiduciary net position as a percentage of the 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 Hagerman Municipal Schools is not available prior to the fiscal 2015, the year the statement's requirement became effective.

See Independent Auditor's Report  
See notes to required supplementary information

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Schedule of Contributions  
Educational Retirement Board (ERB) Pension Plan  
Last 10 Fiscal Years\*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 419,887	\$ 416,493	\$ 387,150
Contributions in relation to the contractually required contribution	<u>419,887</u>	<u>416,493</u>	<u>387,150</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hagerman Municipal School District's covered-employee payroll	\$ 3,020,821	\$ 2,675,168	\$ 2,694,487
Contribution as a percentage of covered-employee payroll	13.90%	13.90%	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 for Hagerman Municipal Schools is not available prior to the fiscal 2015, the year the statement's requirement became effective.

See Independent Auditor's Report  
See notes to required supplementary information

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Notes to Required Supplementary Information  
Year Ended June 30, 2017

***Changes in 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 \$138,000,000 decrease in the unfunded actuarial liability.

See Independent Auditor's Report  
See notes to required supplementary information

**SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO  
HAGERMAN MUNICIPAL SCHOOLS  
Schedule of Cash Receipts and  
Disbursements - All Funds by  
School District Classification  
Year Ended June 30, 2017

	<u>Operational</u>	<u>Transportation</u>	<u>Instructional Materials</u>	<u>Food Services</u>	<u>Athletics</u>	<u>Non- Instructional</u>	<u>Local</u>
Cash Balance, June 30, 2016	\$ 890,170	\$ -	\$ 13,005	\$ 144,169	\$ 12,860	\$ 172,758	\$ 26,908
Cash Receipts, 2016-2017	4,231,702	235,622	25,908	280,822	12,404	796,653	64,423
Cash Disbursements, 2016-2017	<u>(4,526,400)</u>	<u>(235,622)</u>	<u>(29,617)</u>	<u>(261,781)</u>	<u>(15,177)</u>	<u>(783,191)</u>	<u>(81,165)</u>
Cash Balance, June 30, 2017	<u><b>\$ 595,472</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 9,296</b></u>	<u><b>\$ 163,210</b></u>	<u><b>\$ 10,087</b></u>	<u><b>\$ 186,220</b></u>	<u><b>\$ 10,166</b></u>

	<u>State</u>	<u>Federal Projects</u>	<u>Bond Building</u>	<u>Capital Improvement SB-9</u>	<u>Local Capital Improvement SB-9</u>	<u>Debt Service</u>
Cash Balance, June 30, 2016	\$ (83,438)	\$ (40,416)	\$ 233,811	\$ -	\$ 264,826	\$ 205,845
Restatement of Cash	-	-	268,107	-	-	-
Cash Receipts, 2016-2017	201,049	441,160	795	-	122,566	203,215
Cash Disbursements, 2016-2017	<u>(173,654)</u>	<u>(431,458)</u>	<u>(380,389)</u>	<u>(56,068)</u>	<u>(103,428)</u>	<u>(191,961)</u>
Cash Balance, June 30, 2017	<u><b>\$ (56,043)</b></u>	<u><b>\$ (30,714)</b></u>	<u><b>\$ 122,324</b></u>	<u><b>\$ (56,068)</b></u>	<u><b>\$ 283,964</b></u>	<u><b>\$ 217,099</b></u>

*Rice and Associates, C.P.A.*

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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 AUDITOR'S REPORT**

Mr. Tim Keller  
New Mexico State Auditor  
and  
Board of Education  
Hagerman Municipal Schools  
Hagerman, 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, the budgetary comparisons of the General, Cafeteria, IDEA-B Entitlement, Medicaid and Kindergarten 3-Plus Funds of the Hagerman Municipal Schools, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Hagerman Municipal Schools basic financial statements, and the combining and individual funds and have issued our report thereon dated October 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hagerman Municipal Schools internal control over financial reporting as a basis for designing our 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 the Hagerman Municipal Schools internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hagerman Municipal Schools internal control over financial reporting.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hagerman 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Responses as Transactions Made by Third Parties Not Recorded on Books of Record or Public Education Department Quarterly Report (2017-01), Board Meeting Minutes (2017-002), Activity Receipts and Receipt Books (2017-003) and No Depreciation Policy (2017-004).

#### Responses to the Findings

Hagerman Municipal Schools responses to the findings identified in our audit are described in the accompanying Status of Findings and Responses. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

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



Albuquerque, New Mexico  
October 19, 2017

**STATUS OF COMMENTS AND RESPONSES**

**Prior Year Audit Findings:**

NONE

**Current Year Audit Findings:**

1. Transactions Made by Third Parties Not Recorded on Books of Record or Public Education Department Quarterly Report (2017-001)
2. Board Meeting Minutes (2017-002)
3. Activity Receipts and Receipt Books (2017-003)
4. No Depreciation Policy (2017-004)



Transactions Made by Third Parties  
Not Recorded on Books of Record or  
Public Education Department  
Quarterly Report - Other Matter  
(2017-001)

CONDITION	Funds held at New Mexico Finance Authority were never recorded on the School District's books of record or Public Education Department quarterly reports. These included cash balances of \$268,107 at the beginning of the year, interest earned of \$794.
CRITERIA	All transactions whether actually made by management or outside parties needs to be posted/recorded to the entity's books of record and Public Education Department quarterly reports.
CAUSE	Management did not ensure these transactions were booked.
EFFECT	Cash balances and interest income were understated on the School District's books of record. Adjustments had to be made to adjust certain trial balances so these amounts were included.
RECOMMENDATION	Management should ensure all amounts/transactions are posted/recorded to the School District's books of record.
RESPONSE	The Business Manager has already insured and posted the third party transactions for the fiscal year 2018. The Business Manager will ensure this procedure is done for all future postings.

Board Meeting Minutes - Other Matter  
(2017-002)

CONDITION	The Board Meeting Minutes are sparse in detail and do not have a date as to when they were signed by the appropriate signatories.
CRITERIA	Board Meeting Minutes need enough information for the reader to understand what occurred in the meeting. Also, according to 10-16-1 G of the Open Meetings Act "Minutes shall not become official until approval by the policy making body."
CAUSE	Management was not aware of this requirement.
EFFECT	The 2016-2017 minutes do not appear to be official in the format they are currently presented.
RECOMMENDATION	Minutes should be expanded to ensure readers can understand clearly what happened. Also, each official set should be dated to comply with the Open Meetings Act.
RESPONSE	Minutes have been expanded with the September Board Meeting and August minutes were dated. This procedure will be done by the Board Secretary.

Activity Receipts and Receipt Books - Other Matter  
(2017-003)

CONDITION	<p>The Business Office is not reviewing the activity receipt books from the schools to ensure;</p> <ol style="list-style-type: none"><li>1. Voided receipts have all copies attached.</li><li>2. Deposits made agree to the receipts in the receipt book.</li><li>3. That all receipts in the receipt books are posted to the correct activity account.</li></ol> <p>Thus, proper oversight of these resources is inadequate.</p>
CRITERIA	<p>The Public Education Department Manual of Procedures specifically PSAB Supplement 7 - cash controls states "School Districts must establish internal controls over cash and cash equivalents to insure that assets are protected and are accounted for in a professional and timely manner.</p>
CAUSE	<p>Business Office staff were not aware of the missing step in internal control procedures ensuring activity fund resources were adequately accounted for and reconciled.</p>
EFFECT	<p>Fraud, waste or abuse can occur if proper internal controls do not exist. In this case, proper oversight of the Activity account receipts/receipt books.</p>
RECOMMENDATION	<p>A Business Office employee should be tasked with reviewing and reconciling these receipts/receipt books on a daily basis.</p>
RESPONSE	<p>The Central Office Secretary has ordered new receipt books that are pre-numbered by School. The secretary also makes copies and records all receipts and deposits made by each School.</p>

No Depreciation Policy - Other Matter  
(2017-004)

CONDITION	The School District has not approved a depreciation policy so depreciation can be charged to capital assets according to Board approval. Also, the schedule is not consistent on whether a full-year or half-year designation is used.
CRITERIA	The School District needs a depreciation policy so capital assets can be depreciated according to Board policy. This is due to the implementation of GASB 34.
CAUSE	The School District has not approved a policy for management to follow.
EFFECT	Depreciation may be charged incorrectly because no set policy is in place.
RECOMMENDATION	The School District should approve a policy as soon as possible. Management should then implement that policy as soon as possible.
RESPONSE	The Superintendent has revised the depreciation policy and will present it to the School Board at the November meeting for approval.

#### FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2017 were prepared by Rice & Associates, CPA, based on managements chart of accounts and trial balances including any adjusting, correcting or closing entries approved by management. These services are allowable under SAS 115.

#### EXIT CONFERENCE

An exit conference was held at the School District on October 19, 2017, to discuss the current audit report. In attendance were Ms. Cheryl Andrews, Director of Business and Finance, Mr. Chad Hamill, Board President, Ms. Lois Wilson Stephens, Board Secretary, Ms. Michelle Riggs, Community Member, Ms. Rosa E. Barela, Parent, Mr. Rickey Williams, Superintendent, Mr. Antonio Lucero and Ms. Pamela A. Rice, CPA, Contract Auditors.