

**Timothy M. Keller**  
State Auditor



**Sanjay Bhakta, CPA, CGFM, CFE, CGMA**  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

January 21, 2016

New Mexico Public School Capital Outlay Council  
410 Don Gaspar Ave.  
Santa Fe, NM 87501

Dear Council Members:

On January 21, 2016, the Office of the State Auditor (OSA) released the Fiscal Year (FY) 2015 financial audit for the New Mexico Public School Facilities Authority (NMPSFA).

We appreciate that the report reflects resolution of the FY2014 audit finding related to interagency transfers. However, the FY2015 audit, which was conducted by the Accounting and Consulting Group, LLP, contains a finding categorized as a material weakness (2015-001). The finding indicates a significant lack of internal controls over monitoring of draw requests, advanced payments to districts and reconciliations of project expenditures.

Management has agreed with this finding and has stated a desire to address the issues raised. We bring this matter to your attention in order to highlight the importance of designing, implementing, maintaining and monitoring appropriate internal controls and to promptly take corrective action when deficiencies are identified. Given the importance and magnitude of the dollars in question, we ask for your prompt attention to resolve this finding.

Additionally, the Office of the State Auditor notes that this audit is exclusive of recent information regarding the NMPSFA received by our special investigation divisions.

Please let my staff or me know if we can be of assistance in any way.

Sincerely,

A handwritten signature in cursive script that reads "Timothy M. Keller".

Timothy M. Keller  
State Auditor

cc: Robert Gorrel, Director

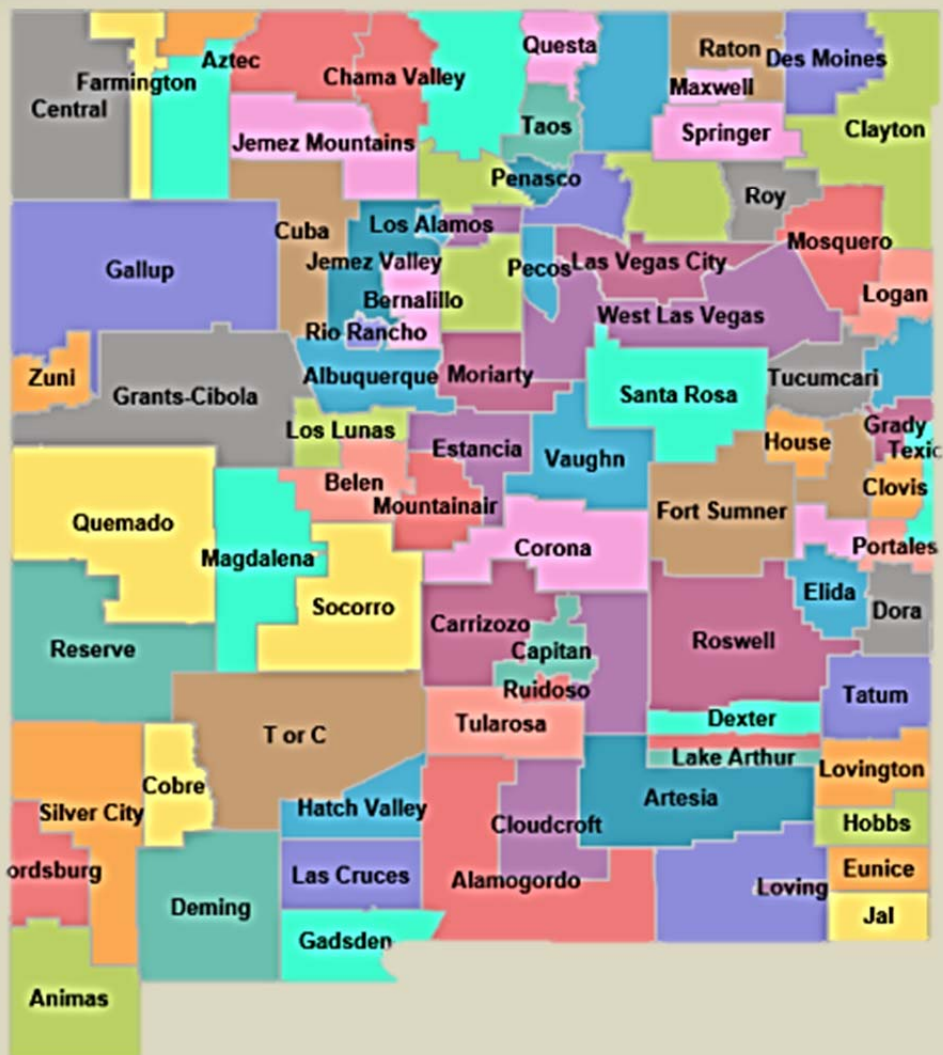


# State of New Mexico

## New Mexico Public School Facilities Authority

### Financial Statements

For the Year Ending June 30, 2015



Partnering with New Mexico's communities to provide quality, sustainable school facilities for our students and educators.

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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
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**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Official Roster  
June 30, 2015

**Public School Capital Outlay Council**

<b><u>Name</u></b>	<b><u>Position</u></b>
David Abbey	Director, Legislative Finance Committee
Paul Aguilar	Deputy Secretary, Public Education Department
Jessica Gonzales	Governor's Designee, Education Cabinet Director
Pat McMurray	Director, Construction Industries Division Manufactured Housing Division Regulations and Licensing Department
Tom Clifford	Secretary, Department of Finance & Administration
Joe Guillen	New Mexico School Boards Association
Frances Maestas	Director, Legislative Education Study Committee
Gilbert Peralta	Member, Public Education Commission
Raul Burciaga	Director, Legislative Council Services

**Administration**

<b><u>Name</u></b>	<b><u>Position</u></b>
Robert Gorrell	Director
M. Rocky Kearney	Deputy Director
Denise Irion	Chief Financial Officer

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**FINANCIAL SECTION**





**Accounting & Consulting Group, LLP**  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Tim Keller  
New Mexico State Auditor  
Members of the Public School Capital Outlay Council  
State of New Mexico Public School Facilities Authority  
Albuquerque, New Mexico

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue fund of the New Mexico Public School Facilities Authority (the "Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 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 Authority'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 Authority'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 financial statement presentation.

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

### **Basis for Qualified Opinion on Due From Other Agencies, Liabilities, and Revenues and Expenditures Presented in the Governmental Activities and the Bond Proceeds Capital Projects Fund**

Material weaknesses in internal controls over project accounting, monitoring of draw requests, and monitoring of advanced payments to Districts has precluded us from gaining sufficient audit evidence as to whether the Due From Other Agencies balance, liability balances and revenues and expenditures of the governmental activities and the Bond Proceeds Capital Projects Fund of the Authority are fairly presented. Also, we are unable to conclude as to whether the budgetary comparison statement of the Bond Proceeds Capital Projects Fund is fairly presented. The amount that would affect the assets, liabilities, net position/fund balance, revenues and/or expenditures of the governmental activities and the governmental fund statements has not been determined.

### **Qualified Opinions**

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion on Due From Other Agencies, Liabilities, and Revenues and Expenditures Presented in the Governmental Activities and the Bond Proceeds Capital Project Fund paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Bond Proceeds Capital Projects Fund of the Authority as of June 30, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison of the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund of the New Mexico Public School Facilities Authority as of June 30, 2015, and the respective change in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities that are attributable to the transactions of the Authority. They do not purport to and do not present fairly the financial position of the State of New Mexico as of June 30, 2015, and the changes in its financial position, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the Authority's financial statements and the budgetary comparisons. The Supporting Schedules I and II required by 2.2.2 NMAC are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The introductory section and Schedules I and II have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority's internal control over financial reporting and compliance.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, NM  
November 20, 2015

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Management's Discussion & Analysis  
June 30, 2015

Public School Facilities Authority's discussion and analysis is designed to (a) provide an overview of the Agency's financial activities, its mission and function, (b) provide a description of significant capital assets, (c) provide a brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide, and (d) provide an analysis of the agency's financial position.

**Public School Facilities Authority Mission Statement**

"Partnering with New Mexico's communities to provide quality, sustainable school facilities for our students and educators."

The Public School Facilities Authority is an adjunct agency of the State of New Mexico, created in 2004 under Section NMSA 22-24-9.

**Financial Highlights**

- The Public School Facilities Authority's net position at June 30, 2015 was \$5,354,266, which is an increase of \$175,600 from the fiscal year ended June 30, 2014.
- As of the close of the fiscal year 2015, the agency's government wide financial statements showed current assets of \$37,715,096 and net capital assets of \$4,203,327.

**Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to The Public School Facilities Authority's basic financial statements. The Public School Facilities Authority's basic financial statements consist of three components: government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of The Public School Facilities Authority's finances, in a manner similar to the private-sector business. These statements consist of the statement of net position and the statement of activities.

The statement of net position presents information on all of the agency's assets and liabilities, with the difference between the two reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the Public School Facilities Authority is improving or deteriorating.

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Management's Discussion & Analysis  
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The statement of activities presents information showing how the agency's net positions changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide Statement of Activities of the agency reflects the activities of the agency by its governmental functions. The Statement of Activities identifies financial resources that are directly related to the governmental function. Financial resources that are not specifically related to the governmental functions are shown as general resources in the bottom portion of this statement. The Statement of Activities also shows the change in net position for the fiscal year.

The government-wide financial statements can be found on pages 22-23 of this report.

**Fund Financial Statements - Governmental Funds.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The agency, like other agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the agency are considered *Governmental Funds*.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements and resources.

The governmental funds use the modified accrual basis of accounting whereby revenues are recognized when they become available and measurable as net current assets. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental fund financial statements and the government-wide financial statements.

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In addition to the General Fund, the agency maintains the Public School Capital Outlay Fund, considered a major fund. (A fund is considered to be a major fund depending on the amount of its assets, liabilities, revenues, or expenditures.)

The Public School Facilities Authority adopts an annual appropriated budget for all of its funds. Budgetary comparison statements have been provided for the governmental funds to demonstrate budget compliance.

The basic governmental fund financial statements can be found on pages 24-29 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 30-48 of this report.

**Budgetary Comparisons.** GASB 34 requires budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules present both the original and the final approved budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the agency's budgetary basis (modified accrual). Budgetary information is provided at the approved budget level to demonstrate compliance with legal requirements.

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the agency, assets exceeded liabilities by \$5,354,266 as of June 30, 2015. Comparative net position is shown below:

	Governmental Activities June 30, 2015	Governmental Activities June 30, 2014
Assets:		
Current assets:		
Investment in State General Fund Investment Pool	\$ -	923,144
Other current assets	<u>36,171,811</u>	<u>17,514,629</u>
Total current assets	36,171,811	18,437,773
Capital assets, net	<u>4,203,327</u>	<u>4,609,598</u>
Total assets	<u>40,375,138</u>	<u>23,047,371</u>
Liabilities:		
Current liabilities	35,020,872	33,548,177
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>35,020,872</u>	<u>33,548,177</u>
Net position:		
Invested in capital assets net of related debt	4,203,327	4,609,598
Unrestricted	<u>1,150,939</u>	<u>(15,110,404)</u>
Total net position	<u>\$ 5,354,266</u>	<u>(10,500,806)</u>

The increase of \$15,855,072 from the previous year is primarily due to the increase in other current assets to recognize the receivables for prior year draw requests submitted to Board of Finance.

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**Changes in Net Position:** The overall decrease/increase in the agency's net position is shown in the following schedule:

	Governmental Activities June 30, 2015	Governmental Activities June 30, 2014
General revenues		
Severance tax bond proceeds	230,155,618	149,316,002
Special appropriations	-	-
Other miscellaneous revenues	<u>1,490,376</u>	<u>195,654</u>
Total revenues	<u>231,645,994</u>	<u>145,991,598</u>
Expenses		
Education	215,395,085	149,316,002
General Government	<u>5,830,050</u>	<u>5,413,079</u>
Total expenses	<u>221,225,135</u>	<u>154,729,081</u>
Change in net position	15,855,072	(5,435,322)
Beginning net position, July 1	<u>(10,500,806)</u>	<u>10,614,428</u>
Ending net position, June 30	<u>\$ 5,354,266</u>	<u>(10,500,806)</u>

See Note 12 for restatement at year end June 30, 2015.

**FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

**Governmental Funds**

The focus of the agency's governmental funds is to provide information on near-term inflows, and balances of expendable resources. Such information is more useful in assessing the agency's financial position than the government-wide statements, because the fund financial statements better reflect the reality that certain revenues are legally restricted for specific purposes and cannot be used to cover the costs of other operations.

At June 30, 2015, the agency had a deficit fund balance in Bond Proceeds Capital Projects Fund (94700) in the amount of (\$33,422). This goal being met marks the agency's response to submit monthly draw requests to the State Board of Finance.

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**Budgetary Highlights**

The agency's General Fund budget for fiscal year 2015 was \$5,913,000 (\$4,502,100 Personnel Services and Employee Benefits; \$179,500 Contractual Services; \$1,231,400 Other). The agency executed a category transfer Budget Adjustment Request (BAR), increasing Personnel Services and Employee Benefits \$107,600. The BAR was executed as the agency adopted a 3% salary increase as approved by the PSCOC. At fiscal year end, the agency expended \$5,345,216 reverting back the balance of the fiscal year approved budget to the PSCOC fund \$619,297 which will be recorded in the FY16 fiscal year audit.

In FY15, the agency's major fund, the Public School Capital Outlay Fund saw an increase in budgeted inflows of \$199,740,000 from proceeds of the sale of additional Supplemental Severance Tax Bonds.

<b>FY Budgeted</b>	<b>CY Sold</b>	<b>Source</b>	<b>Series</b>	<b>Date of Sale</b>	<b>Amount</b>	<b>Description</b>
2015	15Q1	SSTB	2014SB	06/30/14	\$45,159,500	Standards-based Awards
2015	15Q2	SSTB	2014SD	12/31/14	\$154,580,500	Standards-based Awards
		Fund 94300			\$619,297	Agency FY15 Reversion

**Total: \$200,359,297**

Throughout the course of FY15, the Public School Capital Outlay Fund saw outflows totaling \$232,918,985 for project expenditures.



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New Mexico Public School Facilities Authority  
Management's Discussion & Analysis  
June 30, 2015

**Changes in Assets and Long-Term Liabilities of the Agency**

The PSCOC Capital Asset value of \$4,203,327 is the depreciated value of portable classrooms purchased in 2004. Financial Assets are proceeds from the sale of Supplemental Severance Tax Bonds (SSTBs). Although the Authority oversees and funds various construction projects, the Authority does not maintain ownership; ownership is turned over to the respective school district upon completion of the project.

The Authority also does not carry any of the debt obtained to fund the construction project; the debt resides with the New Mexico Board of Finance.

Long term commitments of the agency are future construction (phase 2) awards as identified in the Public School Capital Outlay Council Financial Plan "Project Awards Schedule". At June 30, 2015, unexpended balances in the fund were \$381,142,500. It is the policy goal of the PSCOC to reduce balances. The unexpended balance represents a substantial decrease in unexpended balances that once exceeded \$600 million. In FY15, awards totaled approximately \$221.1 million for 63 school construction and roof projects, facility leases, and facility planning needs in 26 school districts, a decrease of 3.5 percent over FY14. Current long-term commitments for awards not yet certified are to 40 projects totaling approximately \$487.4 million (not inclusive of 2016-17 or other out year award cycles.)

**Economic Factors and Budget Outlook**

***Background of Program Funding***

In 1998, the Zuni school district brought a capital funding/facilities suit against the state, Zuni School District v. State, CV-98-14-II (Dist. Ct., McKinley County Oct. 14, 1999), claiming that the funding system for capital items was unconstitutional. The trial court granted partial summary judgment in favor of plaintiffs and ordered the state to "establish and implement a uniform funding system for capital improvements". In response, the Legislature amended the Severance Tax Bonding Act to create a new category of bonds to be funded by severance taxes termed "Supplemental Severance Tax Bonds (SSTB's). Proceeds of SSTB's are earmarked by the Public School Capital Outlay Act to be utilized for public school improvements. Currently 45% of prior fiscal year Bonding Fund revenue can be used for SSTB's. Since 1999, SSTBs have provided \$2.27 billion for public school construction statewide. As a result of this significant investment, the New Mexico average Facilities Condition Index (FCI) for school buildings has decreased from 70.6% to 35.5% from FY03 to FY15. Substantial progress has been made in equalizing the condition of facilities across the state. Redirecting funds for legislative appropriations and the decline in revenue proceeds could have a negative impact on

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June 30, 2015

the Public School Capital Outlay Fund. Available funding for current programs under the Public School Capital Outlay Act would be decreased, and currently awarded projects in the design phase that will be ready to begin construction in the FY16 – FY17 time period, may be at risk of delay.

***Revenue Volatility***

Severance tax revenues are derived from the production of oil, natural gas, and other minerals. The value of these products is inherently volatile. Hurricanes, pipeline constraints, new extraction technologies and geopolitical events affect domestic and global supply and demand, causing commodity prices, and hence the valuation base of severance tax collections to fluctuate widely, causing revenue volatility in the public school capital outlay fund. Since 1999, the majority of the revenues generated for the public school capital outlay fund are from the issuance of supplemental severance tax notes – short term notes (1-3 day maturity) sold to the State Treasury. The short term nature of these obligations reduces risk in the Severance Tax Bond program, but a side effect is a more volatile revenue stream to the public school capital outlay fund since long-term issuances are not typically used to stabilize funding.

***New Mexico Average Facilities Condition Index (FCI) for School Buildings***

A key performance measure for public school building condition is the average facilities condition index (FCI). FCI has improved by 47 percent since 2003. FCI indicates the level of repair needed for a facility. If a building costs \$100,000 and has an FCI of 37 percent, that building needs \$37,000 in repairs. Despite significant progress, school facilities in New Mexico remain in less than ideal condition.

**Request for Information**

This financial report is designed to provide a general overview of the agency's finances. Questions concerning any of the information provided in this report or any request for additional financial information should be addressed to Robert Gorrell, Director, 1312 Basehart, Suite 200, Albuquerque, NM 87116. Email: [rgorell@nmpsfa.org](mailto:rgorell@nmpsfa.org). cell: 505-301-4021.

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**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Statement of Net Position  
June 30, 2015

Exhibit A-1

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	
Investment in State Treasurer's General Fund Investment Pool	\$ -
Due from other state agencies	36,171,811
<b>Total current assets</b>	<u>36,171,811</u>
Capital assets, net of accumulated depreciation	<u>4,203,327</u>
<b>Total assets</b>	<u><u>\$ 40,375,138</u></u>
<b>Liabilities</b>	
Current liabilities	
Investment accounts overdraft	\$ 15,033,582
Accounts payable	19,687,307
Accrued salaries payable	112,946
Compensated absences payable	187,037
Total current liabilities	<u>35,020,872</u>
Total liabilities	<u>35,020,872</u>
<b>Net Position</b>	
Net investment in capital assets	4,203,327
Unrestricted	<u>1,150,939</u>
Total net position	<u>5,354,266</u>
Total liabilities and net position	<u><u>\$ 40,375,138</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Statement of Activities  
 For the Year Ended June 30, 2015

Exhibit A-2

	<u>Governmental Activities</u>
<b>Expenditures</b>	
Education	\$ 215,395,085
General government	
Personal services and employee benefits	4,101,130
Contractual services	96,459
Other costs	<u>1,632,461</u>
<b>Total Expenses</b>	<u>221,225,135</u>
<b>General revenues</b>	
Severance tax bond proceeds	230,155,618
Miscellaneous	<u>1,490,376</u>
<b>Total general revenues</b>	<u>231,645,994</u>
<b>Change in net position</b>	<u>10,420,859</u>
Net position, beginning	(10,500,806)
Net position, restatement (Note 12)	<u>5,434,213</u>
Net position, as restated	<u>(5,066,593)</u>
Net position, ending	<u><u>\$ 5,354,266</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Balance Sheet  
 Governmental Funds  
 June 30, 2015

	<u>General Fund</u> 94300	<u>Bond Proceeds</u> <u>Capital Projects</u> 94700	<u>Total</u>
<b>ASSETS</b>			
Investments with New Mexico State Treasurer	\$ 1,543,285	\$ -	\$ 1,543,285
Due from other state agencies	-	36,171,811	36,171,811
<b>Total assets</b>	<u>\$ 1,543,285</u>	<u>\$ 36,171,811</u>	<u>\$ 37,715,096</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<i>Liabilities</i>			
Investment accounts overdraft	\$ -	\$ 16,576,867	\$ 16,576,867
Accounts payable	58,941	19,628,366	19,687,307
Accrued salaries payable	112,946	-	112,946
<i>Total liabilities</i>	<u>171,887</u>	<u>36,205,233</u>	<u>36,377,120</u>
<i>Fund balances</i>			
Unassigned	<u>1,371,398</u>	<u>(33,422)</u>	<u>1,337,976</u>
<i>Total fund balances</i>	<u>1,371,398</u>	<u>(33,422)</u>	<u>1,337,976</u>
<i>Total liabilities and fund balances</i>	<u>\$ 1,543,285</u>	<u>\$ 36,171,811</u>	<u>\$ 37,715,096</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Reconciliation of the Balance Sheet to the Statement of Net Position  
Governmental Funds  
June 30, 2015

Exhibit B-1  
Page 2 of 2

Total fund balance for the governmental fund (Exhibit B-1)	\$ 1,337,976
Amounts reported for governmental activities in the Statement of Net Position is different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, and therefore are not reported in the funds.	4,203,327
Current compensated absences are not payable on June 30, 2015 and therefore are not reported in the fund financial statements	(173,143)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(13,894)</u>
Total net position (Exhibit A-1)	<u><u>\$ 5,354,266</u></u>

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Governmental Funds  
 For the Year Ended June 30, 2015

Exhibit B-2  
 Page 1 of 2

	<u>General Fund</u> 94300	<u>Bond Proceeds</u> <u>Capital Projects</u> 94700	<u>Total</u>
<b>Revenues</b>			
Miscellaneous Income	\$ 51,513	\$ 1,438,863	\$ 1,490,376
<i>Total Revenues</i>	<u>51,513</u>	<u>1,438,863</u>	<u>1,490,376</u>
<b>EXPENDITURES</b>			
Current			
Education	-	215,395,085	215,395,085
General Government			
Personnel services and employee benefits	4,096,686	-	4,096,686
Contractual services	96,459	-	96,459
Other costs	1,140,734	-	1,140,734
Capital Outlay	11,337	-	11,337
<i>Total Expenditures</i>	<u>5,345,216</u>	<u>215,395,085</u>	<u>220,740,301</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(5,293,703)</u>	<u>(213,956,222)</u>	<u>(219,249,925)</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in - severance tax bond proceeds	5,913,000	224,242,618	230,155,618
<i>Total other financing sources</i>	<u>5,913,000</u>	<u>224,242,618</u>	<u>230,155,618</u>
<i>Net change in fund balance</i>	<u>619,297</u>	<u>10,286,396</u>	<u>10,905,693</u>
Fund balance, beginning of year	752,101	(15,679,912)	(14,927,811)
Fund balance, restatement (Note 12)	-	5,360,094	5,360,094
Fund balance, as restated	<u>752,101</u>	<u>(10,319,818)</u>	<u>(9,567,717)</u>
<i>Fund balance, end of year</i>	<u>\$ 1,371,398</u>	<u>\$ (33,422)</u>	<u>\$ 1,337,976</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2015

Net Change in Fund Balance - Governmental Funds \$ 10,905,693

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	11,337	
Depreciation expense	(491,727)	
Excess depreciation expense over capital outlay	(480,390)	(480,390)
Increase in compensated absences		(4,444)
Change in Net Position (Exhibit A-2)		\$ 10,420,859

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Statement of Revenues, Expenditures and  
 Changes in Fund Balance-Budget and Actual  
 General Fund  
 For The Year Ended June 30, 2015

Exhibit C-1

	Budgeted Amounts		Actual (Budget) Basis	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<b>Revenues:</b>				
Miscellaneous revenue	\$ -	\$ -	\$ 51,513	\$ 51,513
<i>Total revenues</i>	-	-	51,513	51,513
<b>Expenditures:</b>				
<b>Current:</b>				
Personnel services and employee benefits	4,394,500	4,502,100	4,096,686	405,414
Contractual services	179,500	179,500	96,459	83,041
Other costs	1,231,400	1,231,400	1,152,071	79,329
<i>Total expenditures</i>	5,805,400	5,913,000	5,345,216	567,784
<b>Other financing sources (uses)</b>				
Transfers in				
Severance tax bond proceeds	5,805,400	5,913,000	5,913,000	-
<i>Excess (deficiency) of revenues over expenditures and other financing resources</i>	\$ -	\$ -	\$ 619,297	\$ 619,297
<b>Reconciliation to GAAP Basis</b>				
Expenditures, budgetary basis			\$ 5,345,216	
Accounts payable that required requests to pay prior year bills out of the FY 2016 budget			-	
Expenditures, GAAP basis			\$ 5,345,216	

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Statement of Revenues, Expenditures and  
 Changes in Fund Balance-Budget and Actual  
 Bond Proceeds Capital Projects Special Revenue Fund  
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (Budget) Basis	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues:				
Miscellaneous revenue	\$ -	\$ -	\$ 1,520,918	\$ 1,520,918
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>1,520,918</u>	<u>1,520,918</u>
Expenditures:				
Current:				
Education	220,786,496	220,786,496	212,851,122	7,935,374
<i>Total expenditures</i>	<u>220,786,496</u>	<u>220,786,496</u>	<u>212,851,122</u>	<u>7,935,374</u>
Other financing sources (uses)				
Transfers in				
Severance tax bond proceeds	220,786,496	220,786,496	226,741,043	5,954,547
<i>Total other financing sources</i>	<u>220,786,496</u>	<u>220,786,496</u>	<u>226,741,043</u>	<u>5,954,547</u>
<i>Excess (deficiency) of revenues over expenditures and other financing resources</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,410,839</u>	<u>\$ 15,410,839</u>
Reconciliation to GAAP Basis				
Expenditures, budgetary basis			\$ 212,851,122	
Accounts payable that required requests to pay prior year bills out of the FY 2016 budget			<u>2,543,963</u>	
Expenditures, GAAP basis			<u>\$ 215,395,085</u>	

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

The Deficiencies Correction Unit (DCU) of the Public Schools Capital Outlay Council was created under Senate Bill 167 of the 2001 laws and was budgeted for the first time for the year ended June 30, 2002. Under Senate Bill 513 of the 2003 laws, the DCU became the State of New Mexico Public School Facilities Authority (Authority). The new Authority consists of the staff, contracts, and equipment of the DCU and various staff, contracts, and equipment of the State Department of Education Capital Outlay Unit. Currently, the authority is a fully independent agency vouchering through the State of New Mexico Department of Finance and Administration (DFA).

The State of New Mexico Legislature created the Authority to administer a state-wide program in which the deficiencies in the facilities of each public school district in the State of New Mexico were corrected on a school by school basis.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management who is responsible for their integrity and objectivity. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to agencies of the government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below:

During the year ended June 30, 2015, the Authority adopted GASB Statements No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 (“GASB 68”), and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68 (“GASB 71”). These two Statements are required to be implemented at the same time. Compliance with the requirement of Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for fiscal year ending June 30, 2015. The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such this information will be presented in the Component Appropriation Funds Annual Financial Report General Fund and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflow and outflow of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**Financial Reporting Entity**

Governmental Accounting Standards Board Statement (GASBS) 14 and 39, *The Financial Reporting Entity*, effective for periods beginning after December 15, 1992, establishes standards for defining and reporting on the financial reporting entity. GASB 39 supersedes previous standards issued by the National Council on Governmental Accounting. The requirements of GASB 39 apply at all levels to all State and local governments.

GASB 39 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Authority is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR).

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion) from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, the Authority does not have any component units.

**Use of Estimates in Preparing Financial Statements**

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 assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Authority's estimates include the useful lives of depreciable assets and accrued compensated absences.

**Basic Financial Statements - Government-wide Statements**

The Authority's basic financial statements include both information on a government-wide basis and information presented on a fund basis. Government-wide financial statements include two basic financial statements: a statement of net position and a statement of activities. These statements do not include the fiduciary activities as they do not represent resources available to fund the Authority's programs. The Authority has no fiduciary fund activity.

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental funds or business-type. In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Authority does not have any business-type activities at year end June 30, 2015.

The Authority's net position is reported in three parts: invested in capital assets; restricted net position and unrestricted net position. When applicable, the effect of interfund activity is removed from the statement of net position in order to avoid a grossing-up effect on assets and liabilities within the statements.

The objective of the statement of activities is to report the relative financial burden of each of the reporting government's functions on its taxpayers. The format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees or intergovernmental aid.

The government-wide Statement of Activities reflects both the gross and net cost per functional category which is otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Authority had no program revenues during the year ended June 30, 2015. The Authority includes only one function (general government).

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The net cost (by function or business-type activities) is normally covered by general revenues (intergovernmental revenues or other revenue, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The Authority does not currently employ indirect cost allocation systems. The Authority's policy for when an expense is incurred for purposes for which both restricted and unrestricted assets are available is to utilize the restricted assets first.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the current fiscal period.

**Basic Financial Statements - Fund Financial Statements**

The governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. The presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Authority's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of government-wide presentation.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. The General Fund is required to be a major program, and the Special Revenue Fund also is required to be a major fund. Therefore, there are no non-major funds. The Authority has no fiduciary funds, but if the Authority did, they would not be included in the government-wide financial statements.

The financial transactions of the Authority are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The reporting model under GASB 34 sets forth the minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combines) for the determination of major funds. Due to the fund structure of the Authority, all funds are considered major funds and are included under as governmental funds. The Authority classifies all of its funds as major funds.

The following fund types are used by the Authority:

**Governmental Funds** - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and, other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures of fund liabilities.

The General Fund is the general operating fund of the Authority and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund (SHARE FUND # 94000-94300) is non-reverting in accordance with NMSA 22-24-5, 1978.

The Bond Proceeds Capital Projects Special Revenue Fund (SHARE FUND # 94000-94700) is the program fund of the Authority. It is used to account for all funding received and for all expenditure made for the operation of the deficiencies correction program. This fund is a non-reverting fund in accordance with NMSA 22-24-5, 1978.

**Measurement Focus, Basis of Accounting and Financial Reporting Presentation**

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place.

All governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period ("available" meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, typically 60 days).

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities. However, in the government-wide financial statements, both current and long-term are accrued. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirement are met, under most circumstances, should be reported as advances by the provider and deferred inflow by the recipient.



**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets and Budgetary Accounting**

These procedures are followed in establishing the budgetary data reflected in the financial statements:

1. No later than September 1, the Authority prepares a budget appropriation request by category to be presented to the next Legislature.
2. The appropriation request is submitted to the New Mexico Department of Finance and Administration's Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request, which then becomes the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of these hearings is incorporated into the General Appropriations Act.
7. The Act is signed into law by the Governor of the State of New Mexico within the legally prescribed time limit.
8. The Authority submits, no later than May 1, to DFA an annual operating budget by category and line item based upon the appropriations made by the Legislature. The DFA Budget Division reviews and approves the operating budget which becomes effective on July 1.
9. All subsequent budget adjustments must be approved by the Authority and the Director of the DFA Budget Division. The budget for the current year was properly amended.
10. Legal budget control for expenditures and encumbrances is at the appropriation unit level.
11. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and the Special Revenue Fund.
12. The budget is adopted on a modified accrual basis of accounting that is consistent with accounting principle generally accepted in the United States of America. This change was implemented with the Laws of 2004, Chapter 114, Section 3 Paragraph N and Paragraph O. It is effective for fiscal years beginning July 1, 2004. However, there is a statutory exception per General Appropriation Act, Laws of 2006, Chapter 109, Section 3, Subsections N and O. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA. 1978. Those accounts payable must be paid out of the next year's budget. A reconciliation has been provided that reconciles differences between the budgetary basis and the modified accrual basis.

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets and Budgetary Accounting (continued)**

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

The Authority's General Fund and Special Revenue Fund are not reverting funds.

**Capital Assets**

Property, plant and equipment including software, purchased or acquired, are carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy, i.e., the dollar value above which asset acquisitions including software are added to the capital accounts, is \$5,000 which is a change in policy effective July 1, 2005. However, all capital outlay purchases may not necessarily be capitalized. Old inventory items that do not meet the new capitalization threshold will remain on the inventory list and continue to be depreciated. The Authority does not capitalize any interest in regards to its capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Authority utilizes Internal Revenue Service guidelines to estimate the useful lives on fixed assets as follows:

Equipment	8 years
Computer Equipment	4 to 8 years
Leasehold Improvements	10 years
Portable Classrooms	20 years
Vehicles	5 years

**Encumbrance Accounting**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund and the Special Revenue Funds. Encumbrances not recorded as vouchers payable at year end lapse.

**Accrued Compensated Absences**

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semi-annual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The compensated absences payable is included in the government-wide financial statements. Authority general fund resources have been used to liquidate accrued compensated absences.

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pensions**

The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflow and outflow of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501. For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to /deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, 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.

**Net Position/Fund Equity**

In the government-wide financial statements, net position consists of three components: net investment in capital assets; restricted; and unrestricted. The Authority has no debt related to capital assets; therefore, net position invested in capital assets equal the capital assets, net of accumulated depreciation.

Net position is reported as restricted when constraints placed on net position use are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be only for the specific purposes stipulated in the legislation.

Legal enforceability means the government can be impelled by an external party - such as citizens, public interest groups or the judiciary - to use resources for the purposes specified by the legislation.

These resources remaining in net position were received or earned with the explicit understanding between the Authority and the resource provider (grantor, contributor, other government or enabling legislation) that the funds would be used for a specific purpose.

Unrestricted net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

In the governmental fund financial statements, fund balances are classified as non-spendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Notes to Financial Statements  
June 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority did not have any items that qualified for reporting in this category as of June 30, 2015.

In addition to liabilities, the statement of financial position will sometimes report 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 and so will not be recognized as an inflow of resources (revenue) until that time. The Authority did not have any items that were required to be reported in this category as of June 30, 2015.

**Interfund Balances and Transactions**

Interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**Revenues, Expenditures, and Expenses**

Substantially all governmental fund revenues are accrued. No allowance for doubtful accounts for the Due from Other State Agencies was necessary because this amount was due from bond proceeds held by another state agency and it is considered fully collectible by management.

Expenditures are recognized when the related fund liability is incurred.

**NOTE 3 - STATE GENERAL FUND INVESTMENT POOL**

The Authority does not have a separate bank account. For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Public Schools Facilities Authority, and a contracted third party with expertise in the Enterprise System Software used by the State.

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Notes to Financial Statements  
 June 30, 2015

**NOTE 3 - STATE GENERAL FUND INVESTMENT POOL (CONTINUED)**

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

In FY 2012, management of DFA recorded a loss contingency of \$101.7 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

The Authority has established daily and monthly procedures that mitigate the risk of misstatement of the Authority's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

State law (Section 8-6-3 NMSA 1978) requires the Authority's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Authority's consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

Detail of pledged collateral specific to this agency is unavailable because the bank comingles pledged collateral for all state funds it holds. However, the State Treasurer's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

The Authority does not have a separate bank account. The following is a summary of the Authority's investment account of the State General Fund Investment Pool held by the New Mexico State Treasurer as reported by the New Mexico Department of Finance and Administration (DFA):

Fund	Type of Account	SHARE Fund No.	Reconciled Balance
General Fund	Investment	94300	\$ 1,543,285
Bond Proceeds Capital Projects Fund	Investment	94700	<u>(16,576,867)</u>
Total share of state general fund investment pool			<u>\$ (15,033,582)</u>

The overdraft in the Bond Proceeds Capital Projects Fund is directly related to the timing of when funds are requested from the New Mexico State Board of Finance, (a division of the Department of Finance and Administration), and not an over budget or unfunded cash position. The Authority reconciles actual activity to revenues and expenditures posted in the SHARE system, which mitigates the risk that the Authority's cash balances would be misstated due to the General Fund Investment. Pool not being reconciled as previously mentioned.

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**NOTE 4 – DUE FROM/DUE TO OTHER STATE AGENCIES**

Fund 94700 Proceeds Capital Projects	Due From
State of New Mexico 34100/10920	\$ 36,171,811

The Special Revenue Fund was owed \$36,171,811 by the State of New Mexico of which \$2,926,695 was owed for uncollected draw-downs to pay for construction costs for this fund not yet remitted at June 30, 2014 and was restated in at July 1, 2014. The remaining \$33,245,116 is due to the Authority for construction costs incurred in this fund not yet received by June 30, 2015.

In addition, there appears to be other amounts not drawn from the Board of Finance for expenditures incurred in prior years, and also potentially receivables from school districts for projects not closed out.

**NOTE 5 - CAPITAL ASSETS**

The capital assets activity for the year ended June 30, 2015 is as follows:

	June 30, 2014	Restatement	Additions	Deletions	June 30, 2015
Capital assets being depreciated					
Equipment	\$ 61,608	\$ -	\$ 11,337	\$ -	\$ 72,945
Computer equipment	134,528	-	-	-	134,528
Portable Classrooms	8,481,100	-	-	-	8,481,100
Vehicles	-	247,065	-	-	247,065
Total capital assets being depreciated	8,677,236	247,065	11,337	-	8,935,638
Less accumulated depreciation					
Equipment	25,845		14,150	-	39,995
Computer equipment	116,532		4,109		120,641
Portable Classrooms	3,925,261		424,055		4,349,316
Vehicles	-	172,946	49,413	-	222,359
Total accumulated depreciation	4,067,638	172,946	491,727	-	4,732,311
Capital assets, net of accumulated depreciation	\$ 4,609,598	\$ 74,119	\$ (480,390)	\$ -	\$ 4,203,327

Depreciation expense for the year ended June 30, 2015 was \$491,727. All depreciation expense was allocated to the Authority's general governmental function.

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**NOTE 6 – SPECIAL APPROPRIATIONS**

Appropriations below are from the unexpended proceeds of taxable supplemental severance tax bonds that are not needed for the projects for which the bonds were issued. Therefore, for the identified special appropriations there is not a budget to actual financial statement. These appropriations require an amended certification and resolution to start the project and create a budget. The following is a summary of special appropriations still outstanding at June 30, 2015:

Laws	Applicable Fiscal Year Period	Description	Original Balance	Amount Spent	Amount Returned to State of New Mexico General Fund	Unexpended Balance at 6/30/15
<b>2014 HB55 Section 45</b>	<b>2014-2018</b>	<b>New Mexico School for the Blind and Visually Impaired Projects - Appropriations from the Public School Capital Outlay Fund. Appropriations are from the unexpended proceeds of taxable supplemental severance tax bonds that are no longer needed for the projects for which the bonds were issued. Projects are:</b>				
	P14-021	Ditzler Auditorium and recreation center and the library building, including demolition of the Bert Reeves Learning Center (plan, design, construct, renovate, equip and furnish).	\$ 4,116,993	\$ 168,554	\$ -	\$ 3,948,439
	P14-019	Quimby gymnasium and natatorium ( plan, design, construct, renovate, equip and furnish).	1,844,015	-	-	1,844,015
	P14-020	Sacramento Dormitory (plan, design, construct, renovate, equip and furnish residential cottages, including demolition)	2,294,411	-	-	2,294,411
<b>Total</b>			<b>\$ 8,255,419</b>	<b>\$ 168,554</b>	<b>\$ -</b>	<b>\$ 8,086,865</b>

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**NOTE 6 – SPECIAL APPROPRIATIONS (CONTINUED)**

Laws	Applicable Fiscal Year Period	Description	Original Balance	Amount Spent	Amount Returned to State of New Mexico General Fund	Unexpended Balance at 6/30/15
2014 HB55 Section 46	2014-2018	<b>New Mexico School for the Deaf Project - Appropriations from the Public School Capital Outlay Fund. Appropriations are from the unexpended proceeds of taxable supplemental severance tax bonds that are no longer needed for the projects for which the bonds were issued. Projects are:</b>				
	P15-010	Cartwright Hall (plan, design, construct, renovate, equip and furnish).	\$ 7,038,365	\$ 70,511	\$ -	\$ 6,967,854
<b>Total</b>			<b>\$ 7,038,365</b>	<b>\$ 70,511</b>	<b>\$ -</b>	<b>\$ 6,967,854</b>

Laws	Applicable Fiscal Year Period	Description	Original Balance	Amount Spent	Amount Returned to State of New Mexico General Fund	Unexpended Balance at 6/30/15
2014 HB55 Section 47	2014-2018	<b>Public Education Department Projects - Appropriations from the Public School Capital Outlay Fund. Appropriations are from the unexpended proceeds of taxable supplemental severance tax bonds that are no longer needed for the projects for which the bonds were issued. Projects are:</b>				
		Pre-K (renovate and construct).	\$ 2,500,000	\$ 2,500,000	\$ -	\$ -
		School buses (purchase statewide).	7,395,000	7,395,000	-	-
		Educational technology infrastructure at public schools (minimum network speed of less than five kilobytes per second per student to ensure these schools are able to administer computer-based assessments by the 2014-2015 school year.	5,000,000	5,000,000	-	-
<b>Total</b>			<b>\$ 14,895,000</b>	<b>\$ 14,895,000</b>	<b>\$ -</b>	<b>\$ -</b>



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**NOTE 6 – SPECIAL APPROPRIATIONS (CONTINUED)**

Laws	Applicable Fiscal Year Period	Description	Original Balance	Amount Spent	Amount Returned to		Unexpended Balance at 6/30/15
					State of New Mexico General Fund		
		<b>New Mexico School for the Deaf Project - Appropriations from the Public School Capital Outlay Fund, contingent upon approval of the public school capital outlay council</b>					
<b>2013 SB60</b>							
<b>Section 52</b>	<b>2013-2017</b>						
	P13-008	NMSD - Site Improvements	\$ 7,000,000	\$ 691,008	\$ -	\$ -	\$ 6,308,992
	C10-001	NMSD - Dillion Hall	1,000,000	1,000,000	-	-	-
		<b>Total</b>	<b>\$ 8,000,000</b>	<b>\$ 1,691,008</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,308,992</b>

Laws	Applicable Fiscal Year Period	Description	Original Balance	Amount Spent	Amount Returned to		Unexpended Balance at 6/30/15
					State of New Mexico General Fund		
		<b>Public Education Department - Appropriations from the Public School Capital Outlay Fund, contingent upon approval of the public school capital outlay council</b>					
<b>2013 SB60</b>							
<b>Section 53</b>	<b>2013-2017</b>						
		Pre-K (renovate and construct)	\$ 2,500,000	\$ 2,500,000	\$ -	\$ -	-
		School Busses (purchase statewide)	13,000,000	13,000,000	-	-	-
		<b>Total</b>	<b>\$ 15,500,000</b>	<b>\$ 15,500,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

Laws	Applicable Fiscal Year Period	Description	Original Balance	Amount Spent	Amount Returned to		Unexpended Balance at 6/30/15
					State of New Mexico General Fund		
		<b>Public Education Department - Appropriations from the Public School Capital Outlay Fund, contingent upon approval of the public school capital outlay council</b>					
<b>2015 SB1</b>							
<b>Section 75</b>	<b>2015-2019</b>						
		Pre-K (renovate and construct)	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	-
		School Busses (purchase statewide)	4,000,000	4,000,000	-	-	-
		<b>Total</b>	<b>\$ 5,000,000</b>	<b>\$ 5,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

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**NOTE 6 – SPECIAL APPROPRIATIONS (CONTINUED)**

Laws	Applicable Fiscal Year Period	Description	Original Balance	Amount Spent	Amount Returned to State of New Mexico General Fund	Unexpended Balance at 6/30/15
<b>2013 SB60</b>		<b>New Mexico School for the Blind and Visually Impaired - Appropriations from the Public School Capital Outlay Fund, contingent upon approval of the public school capital outlay council</b>				
<b>Section 54</b>	<b>2013-2017</b>					
	P13-016	NMSBVI - Jack Hall and the Health Services Buildings (relocate the library)	\$ 838,000	\$ 335,008	\$ -	\$ 502,992
	P13-015	NMSBVI - Site Improvements to the campus	2,900,000	1,486,180	-	1,413,820
	P14-025	NMSBVI - Watkins Education Center (renovate and equip and to demolish San Andres Building)	5,500,000	-	-	5,500,000
		<b>Total</b>	<b>\$ 9,238,000</b>	<b>\$ 1,821,188</b>	<b>\$ -</b>	<b>\$ 7,416,812</b>

**NOTE 7 - CHANGES IN LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	June 30, 2014	Additions	Deletions	June 30, 2015	Due within one Year
Compensated Absences	\$ 182,593	\$ 177,587	\$ 173,143	\$ 187,037	\$ 173,143

Compensated absences payable – The liability at June 30, 2015 has been recorded in the basic financial statements and represents the Authorities commitment to fund accrued vacation, sick leave and personal time off costs from future operations. The compensated absence liability of the governmental fund is expected to be liquidated by the General Fund.

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**NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**General Information about the Pension Plan**

**Plan description.** The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 366.

**Benefits provided.** For a description of the benefits provided and recent changes to the benefits see Note in the PERA audited financial statements for the fiscal year ended June 30, 2014 available at [http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf).

**Contributions.** The contribution requirements of plan members and the Board are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY14 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY14 annual audit report at [http://osanm.org/media/audits/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf). The PERA coverage option that applies to the Authority is State Plan 3. Statutorily required contributions to the pension plan were \$487,374 for the year ended June 30, 2015.

***Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions:***

The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2014.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The State of New Mexico's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2014. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2014 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2014 are included in the total contribution amounts.

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**NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)**

In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

Compliant with the requirements of Government Accounting Standards Board Statement No. 68 Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for fiscal year ending June 30, 2015.

The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA).

Disclosure requirements including schedules of required supplementary information and related notes for governmental funds apply to the primary government as a whole, and as such this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflow and outflow of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**NOTE 9 - POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN**

**Plan Description.** The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment 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 employer's 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 postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

**Funding Policy.** The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's 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).

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**NOTE 9 - POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (CONTINUED)**

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, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; 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 Authority's contributions to the RHCA for the years ended June 30, 2015, 2014 and 2013 were \$57,391, \$51,891, and \$52,481, respectively, which equal the required contributions for each year.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The Authority leased its office space in Santa Fe and in Albuquerque under operating leases. The Santa Fe lease was renewed in May 2011 for an indefinite amount of time and since it is in a State owned building, there are no lease payments. The Authority is responsible for the building's maintenance and utility costs. The Albuquerque lease was entered as of July 1, 2008 for an initial term of five years. In July 2013, the Authority renewed for a second five-year term. Total rental expenditures for the year ended June 30, 2015 for operating leases were \$184,800.

The following is a schedule by years of future minimum lease rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2015.

Year Ending June 30,	Amount
2016	\$ 190,575
2017	196,350
2018	196,350
	\$ 583,275

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**NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Risk Management**

The Authority obtains coverage through the Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. The coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Authority are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2014 through June 30, 2015. There have been no settlements in excess of insurance coverage as of June 30, 2015.

**NOTE 11 –TRANSFERS FROM OTHER AGENCIES**

Department Fund	Agency	Agency Number	Fund Number	Amount	Pupose
Governmental funds:					
94300	State Of New Mexico	34100	10920	\$ 5,913,000	Severance Tax Bond Proceeds
94700	State Of New Mexico	34100	10920	<u>224,242,618</u>	Severance Tax Bond Proceeds
Total governmental funds				<u>\$ 230,155,618</u>	

**NOTE 12 –PRIOR PERIOD RESTATEMENT**

At June 30, 2015, a prior period restatement was recorded related to the following:

**Fund Financial Statements**

- \$82,055 related to revenues collected in current year from prior year draw requests.
- \$2,351,344 related to unrecorded outstanding accounts receivable as of June 30, 2014 that is still outstanding (uncollected) as of June 30, 2015.
- \$2,926,695 related to unrecorded outstanding accounts receivable in 2014 that was collected during fiscal year 2015.

**Government-wide Activities**

- \$74,119 related to vehicles not recorded in prior year, which as of July 1, 2014 had cost of \$247,065 and accumulated depreciation of \$172,946.

**NOTE 13 – OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

- The Authority had the following deficit fund balance:

Bond Proceeds Capital Projects Fund (94700)    \$    (33,422)

- The Authority did not exceed approved budget at year end June 30, 2015.
- The Authority did not have any funds in which designated cash appropriations were in excess of available budget.

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New Mexico Public School Facilities Authority  
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**NOTE 14 – SUBSEQUENT PRONOUNCEMENTS**

In February 2015, GASB Statement No. 72 *Fair Value Measurement and Application*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Authority will implement this standard during the fiscal year ended June 30, 2016. The Authority is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. Earlier application is encouraged. The Authority is still evaluating how this pronouncement will affect the Authority.

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. This pronouncement will not effect the Authority's financial statements.

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The Authority is still evaluating the potential impact on the financial statements.

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Authority will implement this standard during the fiscal year ended June 30, 2016. The Authority expects the pronouncement to have a material effect on the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The Authority will implement this standard during the fiscal year ended June 30, 2017. The Authority is still evaluating how this pronouncement will effect the financial statements.

**NOTE 15 –SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2015, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is November 20, 2015, which is the date on which the financial statements were available to be issued. No events were noted for disclosure.

**NOTE 16 –FUTURE PROJECTS**

The PSCOC certifies to the Board of Finance the need to issue bonds for projects and other uses provided for under the Public School Capital Outlay Act. Bond proceeds therefore support funding needs of project commitments identified on a priority basis by the PSCOC and made on behalf of the State of New Mexico for public school capital improvements statewide. Reallocation of revenue in the fund by the Legislature that is not supplanted by other replacement sources within a short period of time will delay commencement or completion of public school facility improvements the State has committed to participate in. Engineering, architecture and construction contracts relating to construction or major repairs of educational facilities aggregated approximately \$816,853,333 as of June 30, 2015. The remaining commitment on these contracts was approximately \$146,808,915. These contracts will be paid in future periods as work is performed. Payment will be made with proceeds from severance tax bonds and contributions from respective school districts. At June 30, 2015, the Authority had approximately \$381,142,500 of certified and issued Severance Tax Bonds that remain unspent.

**SUPPORTING SCHEDULES**



**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Schedule of Joint Powers Agreements  
For the Year Ended June 30, 2015

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Alamogordo	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Albuquerque	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Animas	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Aztec	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Belen	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Bernalillo	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Bloomfield	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Capitan	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Carlsbad	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Carrizozo	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Central	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Chama	PSFA Director	11/01/10	Indefinitely	NA	NA	School District

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Cloudercroft	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Clovis	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Cobre	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Corona	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Cuba	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Deming	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Des Moines	PSFA Director	03/17/11	Indefinitely	NA	NA	School District
Dexter	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Dora	PSFA Director	01/12/11	Indefinitely	NA	NA	School District
Elida	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Espanola	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Estancia	PSFA Director	10/05/10	Indefinitely	NA	NA	School District

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Schedule of Joint Powers Agreements  
 For the Year Ended June 30, 2015

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Eunice	PSFA Director	03/25/11	Indefinitely	NA	NA	School District
Farmington	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Floyd	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Fort Sumner	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Gadsden	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Gallup	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Grady	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Grants	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Hagerman	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Hatch	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Hobbs	PSFA Director	03/04/11	Indefinitely	NA	NA	School District

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Hondo	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
House	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Jal	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Jemez Mountain	PSFA Director	10/25/10	Indefinitely	NA	NA	School District
Jemez Valley	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Lake Arthur	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Las Cruces	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Las Vegas City	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Logan	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Lordsburg	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Los Alamos	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Los Lunas	PSFA Director	11/01/10	Indefinitely	NA	NA	School District

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Schedule of Joint Powers Agreements  
 For the Year Ended June 30, 2015

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Loving	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Lovington	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Magdalena	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Maxwell	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Melrose	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Mesa Vista	PSFA Director	03/16/12	Indefinitely	NA	NA	School District
Mora	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Moriarty	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Mosquero	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Mountainair	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Pecos	PSFA Director	10/05/10	Indefinitely	NA	NA	School District

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Penasco	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Pojoaque	PSFA Director	01/26/13	Indefinitely	NA	NA	School District
Portales	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Questa	PSFA Director	03/08/13	Indefinitely	NA	NA	School District
Raton	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Reserve	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Rio Rancho	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
Roswell	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Roy	PSFA Director	03/04/11	Indefinitely	NA	NA	School District
Ruidoso	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
San Jon	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Santa Fe	PSFA Director	11/01/10	Indefinitely	NA	NA	School District

**STATE OF NEW MEXICO**  
 New Mexico Public School Facilities Authority  
 Schedule of Joint Powers Agreements  
 For the Year Ended June 30, 2015

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Santa Rosa	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Silver City	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Socorro	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Springer	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
Taos	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Tatum	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Texico	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
T or C	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Tucumcari	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Tularosa	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Vaughn	PSFA Director	09/29/10	Indefinitely	NA	NA	School District

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Wagon Mound	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
West Las Vegas	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Zuni	PSFA Director	09/21/10	Indefinitely	NA	NA	School District
NM School for the Deaf	PSFA Director	10/27/09	Indefinitely	NA	NA	School District
NM School for the Blind	PSFA Director	11/20/09	Indefinitely	NA	NA	School District
Academy of Trades & Technology	PSFA Director	11/01/10	Indefinitely	NA	NA	School District
ACE Leadership HS	PSFA Director	08/30/11	Indefinitely	NA	NA	School District
Albuquerque Sign Language Academy	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Aldo Leopold HS	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Alma d'arte	PSFA Director	03/11/11	Indefinitely	NA	NA	School District
Amy Biehl HS	PSFA Director	04/16/13	Indefinitely	NA	NA	School District
The ASK Academy	PSFA Director	01/06/11	Indefinitely	NA	NA	School District



**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Schedule of Joint Powers Agreements  
For the Year Ended June 30, 2015

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Cesar Chavez Community School	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Cien Aguas International School	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Cottonwood Classical Preparatory School	PSFA Director	09/21/10	Indefinitely	NA	NA	School District
East Mountain HS	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Gilbert Sena Charter HS	PSFA Director	04/24/13	Indefinitely	NA	NA	School District
Horizon Academy West	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
International School of Mesa del Sol	PSFA Director	05/23/13	Indefinitely	NA	NA	School District
J. Paul Taylor Academy	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
La Promesa Charter School	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
The Masters Program	PSFA Director	07/21/11	Indefinitely	NA	NA	School District
Media Arts Collaborative CS	PSFA Director	09/08/10	Indefinitely	NA	NA	School District

<b>District Responsibility</b>	<b>Responsible Party</b>	<b>Beginning (DFA Approval)</b>	<b>Ending</b>	<b>Amount Applicable</b>	<b>Amount Contributed</b>	<b>Audit</b>
Montessori ES	PSFA Director	04/16/13	Indefinitely	NA	NA	School District
New Mexico School for the Arts	PSFA Director	09/29/10	Indefinitely	NA	NA	School District
North Valley Academy	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
School of Dreams	PSFA Director	01/12/11	Indefinitely	NA	NA	School District
South Valley Preparatory School	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
SW Intermediate Learning Center	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
SW Primary Learning Center	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
SW Secondary Learning Center	PSFA Director	09/08/10	Indefinitely	NA	NA	School District
Taos Academy Charter School	PSFA Director	10/05/10	Indefinitely	NA	NA	School District
Taos Integrated School for the Arts	PSFA Director	01/06/11	Indefinitely	NA	NA	School District
Tierra Adentro	PSFA Director	09/23/10	Indefinitely	NA	NA	School District
Village Academy	PSFA Director	09/08/10	Indefinitely	NA	NA	School District

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Schedule of Vendor Information for Purchases Exceeding \$60,000 (excluding GRT)  
For the Year Ended June 30, 2015

Prepared by Agency: New Mexico Public School Facilities Authority

Title: Denise Irion

Date: 11/20/2015

<u>Bid/RFP #</u>	<u>Type of Procurement</u>	<u>Awarded Vendor</u>
RFP	U.S. GSA Agreement/RFP	E BUILDER INC
RFP	NM DGS & US GSA Agreement	COLUMBIA TELECOMMUNICATIONS CORPORATION
RFP	U.S. GSA Agreement/RFP	HEWLETT-PACKARD

See independent auditors' report.

\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation of All Vendor(s) that responded	In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
149,150	149,150	1800 NW 69th Ave Suite 201, Plantation, FL 33313	NA	NA	SOFTWARE LICENSE
230,000	230,000	106013 Concord Street, Kensington, MD 20895	NA	NA	TECHNOLOGY IT
2,136,694	2,136,694	355 Ledgelawn Drive, Conway, Arkansas 72034	NA	NA	TECHNOLOGY BROADBAND

See independent auditors' report.

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**COMPLIANCE SECTION**



**Accounting & Consulting Group, LLP**  
Certified Public Accountants

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

**INDEPENDENT AUDITORS' REPORT**

Tim Keller  
New Mexico State Auditor  
Members of the Public School Capital Outlay Council  
State of New Mexico Public School Facilities Authority  
Albuquerque, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the budgetary comparison of general fund and major special revenue fund of the New Mexico Public School Facilities Authority (the "Authority") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 20, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weakness or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item FS 2015-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

## **Authority's Responses to Finding**

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
November 20, 2015



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**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Schedule of Findings and Responses  
June 30, 2015

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

*Financial Statements:*

1. Type of auditors’ report issued	Qualified
2. Internal Control over financial Reporting	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified not considered to be material weaknesses?	None Noted
c. Noncompliance material to the financial statements noted?	None Noted

## SECTION II – FINANCIAL STATEMENT FINDINGS AND RESPONSES

### **FS 2015-001- Lack of Internal Controls over Monitoring of Draw Requests, Advanced Payments to Districts and Reconciliations of Project Expenditures (Material Weakness)**

*Condition:* During our audit of the revenue and receivables cycle we noted the following deficiencies:

- Deficiencies in internal controls in the prior years have led to draw requests that have been processed far after the project expenditures. We noted \$5,278,040 recorded as revenue in fiscal year 2015 that were related to expenditures in a prior year.
- We noted that the manual systems and processes in place did not allow for timely draw requests. We noted \$3,811,145 of expenditures incurred in fiscal year 2015 that were requested in fiscal year 2016 ranging from four months to thirteen months delay.
- We noted that the Authority has advanced funds to school district for its matching portion if the District does not have the initial budget to fund the project. It also appears that the advances were not previously accounted for accurately within SHARE and, therefore, there are funds that have been received in the current year that pertain to these advances that would not have been captured unless the CFO captured these outstanding advances. The amounts received during fiscal year 2015 were \$2,803,169.
- The Authority did not previously employ a reporting or accounting mechanism in SHARE to track and account for project expenditures in a way that can be reconciled back to the manual reconciliations performed within the accounting department.
- We noted that there are several projects not closed out that could result in funds due to the Authority or funds due to the Districts.

The Authority performed project reconciliations during the year for several projects that had purchase orders in fiscal year 2015. From these reconciliations management was able to identify and draw down funds for 28 projects totaling \$5,278,040.

Also, beginning in July of 2014, the Authority has implemented budgeting at the project level, to include identifying the supplement severance tax bond revenue source, to prevent budget over expenditures and increase the ability to track and account for projects within SHARE. This should increase the ability to reconcile the manual processes in place at PSFA to the general ledger and to determine that all projects costs have been recouped. In addition, this will increase the ability to determine that all receivables related to projects are properly captured and accounted for.

*Criteria:* The Committee of Sponsoring Organizations (COSO) internal control integrated framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication, and monitoring.

*Effect:* Without timely draw request procedures and processes, the Authority must front the funds to pay for the construction projects and other expenditures of the Authority until the Agency performs the draw process to utilize Severance Tax Bond Proceeds available to the Agency. In addition, there is a risk that funds have been advanced to school districts and are owed back to the Authority. Also, reporting in SHARE is such that it is difficult or may not even be able to be performed, to determine the cost accounting for each project. Lastly, the deficiencies in combination could lead to a misstatement of receivables, liabilities, revenues and expenditures in a given period, and, resulted in a qualified opinion for fiscal year 2015.

*Cause:* The current general ledger and accounting function(s) have not been set up to properly track and account for project expenditures and activity from the Board of Finance so that the above items noted in the condition are prevented or detected. In addition, there are various manual procedures that are required and performed to account for the activity and a sufficient history of activity is not available because appropriate codes to track and report within SHARE were not utilized. Lastly, the turnover in the accounting department transpired in the prior years resulted in a lapse of duties. This turnover has also created a situation in which there is a backlog of work, making it difficult for current employees to perform reconciliations of projects and issues from the prior years.

**SECTION II – FINANCIAL STATEMENT FINDINGS AND RESPONSES (continued)**

**FS 2015-001- Lack of Internal Controls over Monitoring of Draw Requests, Advanced Payments to Districts and Reconciliations of Project Expenditures (Material Weakness) (continued)**

*Auditors' Recommendation:* The Authority should review its processes and procedures over monitoring draws to ensure that the draws are both timely, we recommend within 60 days of the expenditure to the vendor(s), and accurate. In addition, the Authority should ensure that there are sufficient accounting and reporting abilities set up within its general ledger to properly track and account for transactions, and, take into account the unique operating environment of the Authority. Lastly, the Authority should review its practices with advancing fund to the school districts to ensure they are properly accounted for and tracked. The Authority should account for its advances to School Districts separately from its other reimbursements to School Districts which are currently recorded as expenditures. The advances should be accounted as short-term loan receivables. A subsidiary ledger should be maintained to keep track of advances to School Districts. The status of the advances, repayments, and outstanding balances within the subsidiary ledger by School District should be reconciled to SHARE general ledger monthly. Lastly, we recommend that the Authority perform timely project close outs to allow for the respective percentages of shared projects to be audited for each project and any settlement of total projects costs timely remitted.

*Agency's Response:* Management agrees with the finding and understands the need for internal control within processes to consist of the five critical elements of COSO (The Committee of Sponsoring Organizations). This has been an ongoing effort by the Authority. As the Authority transitioned to the new Chief Financial Officer, these gaps were recognized. Processes were implemented to properly capture and account for project expenditures. The Authority recognizes that, although it will be a lengthy process to perform reconciliations of projects and issues from prior years, this is nonetheless a core responsibility of the Authority that must be performed timely and accurately. The following are actions we have implemented or are in the process of implementing to address the deficiencies cited in the audit report.

The Authority has implemented monthly draw requests to Board of Finance to include reconciliation of balances to SHARE and to the State Board of Finance (BOF). The Authority recognizes the backlog of activity and will increase personnel as needed to address the backlog.

The Authority keeps a subsidiary ledger within the financial plan that reports the advance activity monthly to the Public School Capital Outlay Council (PSCOC) for approval. The monthly reconciliations will continue and the Authority will continue to work with the Department of Finance and Administration (DFA) to properly record the advances to the general ledger (SHARE) in a timely manner.

Beginning July 1, 2014 the Authority implemented budgeting at a project level basis in accordance with accounting standards. The capital budgeting process currently implemented was agreed upon between the Authority and DFA. The Authority will continue to explore system reconciliation and reporting from SHARE to reduce the amount of manual procedures currently required.

The Authority will implement financial close out procedures to determine and incorporate the recognition of a due to or due from the Districts during the fiscal year end closing process.

**SECTION III – PRIOR YEAR FINDINGS**

**FS 2014-001 Policies & Procedures FIN 3.1 Interagency Transfers – Resolved**

**STATE OF NEW MEXICO**  
New Mexico Public School Facilities Authority  
Other Disclosures  
June 30, 2015

**OTHER DISCLOSURES**

**Exit Conference**

An exit conference was held on November 23, 2015. The following individuals were in attendance.

**Representing New Mexico Public School Facilities Authority:**

**Public Schools Capital Outlay Council**

David Abbey	Chair PSCOC
Tom Clifford	Member
Joe Guillen	Member

**Legislative Finance Committee:**

Clint Elkins	Fiscal Analyst
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**Department of Finance and Administration**

Cinthia Martinez	Budget Analyst
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**Representing the Public Schools Facilities Authority**

Robert Gorrell	Executive Director
Denise A. Irion	Chief Financial Officer

**Representing Accounting & Consulting Group, LLP**

Robert Cordova, CPA	Audit Partner
Robert Gonzales, CPA	Audit Manager

**Auditor Prepared Financial Statements**

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of the Authority from the original books and records provided to them by the management of the Authority. The responsibility for the financial statements remains with the Authority.