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**STATE OF NEW MEXICO
NEW MEXICO SCHOOL
FOR THE DEAF**

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2016

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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State of New Mexico
New Mexico School for the Deaf

BOARD OF REGENTS

June 30, 2016

Ms. Lynann Barbero	President
Mr. John Robertson	Vice-President
Mr. Ricardo Gonzales	Secretary/Treasurer
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Mr. Rick Garcia	Director of Human Resources

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Regents
State of New Mexico – New Mexico School for the Deaf
Santa Fe, New Mexico
And
Mr. Timothy Keller
New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the New Mexico School for the Deaf (the School or NMSD) as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents. We also have audited the financial statements of the budgetary comparisons for the unrestricted and restricted – all operations, unrestricted non-instruction and general, unrestricted current funds – instruction and general, and restricted current funds – instruction and general funds presented as supplementary information, as defined by the Government Accounting Standards Board, in accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, 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 misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School’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 School’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the School as of June 30, 2016 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison statements for the year ended June 30, 2016, referenced as schedules 1, 2, 3, and 4 in conformity with the budgetary basis of accounting more fully described in Note B, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B1, the financial statements of the New Mexico School for the Deaf are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of the New Mexico School for the Deaf. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America (US GAAP). The School's financial statements are included in the financial statements of the State of New Mexico.

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 5 through 18 and pension statements on pages 49 through 52 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 Supplemental Information

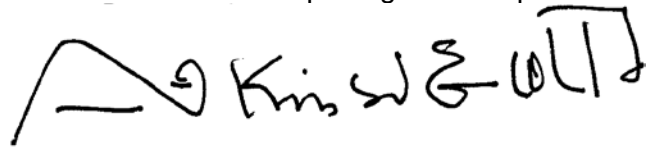
Our audit was conducted for the purpose of forming opinions on the financial statements of the business type activities and the budgetary comparisons. The accompanying schedules of cash and investments, pledged collateral requirements, bonds, appropriations and joint powers agreements required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the

auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of Vendor Information, required by 2.2.2 NMAC, has 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 14, 2016 on our consideration of the School'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 School's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

For financial reporting purposes, the New Mexico School for the Deaf (the School or NMSD) is considered a special school providing public education for deaf and hard-of-hearing children. NMSD's financial statements have been presented using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Comparative information for the Management Discussion and Analysis is provided in this report.

FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position indicate the School's net position and how they have changed. The School's financial position is measured by its net position – the difference between assets and liabilities and the effects of deferred inflows and outflows, if any. Over time, the School's net position increases and decreases indicating whether it's financial position is improving or deteriorating. These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with accounting methods used by private sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or disbursed.

FINANCIAL HIGHLIGHTS

USING THE BASIC FINANCIAL STATEMENTS

There are three basic financial statements presented in this audit report and they are the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

Statement of Net Position

This statement presents NMSD's assets, liabilities, and net position for the current fiscal year. On the assets side, for FY2016, total assets increased by 15.8% or \$8,475,579 over FY2015. Current assets, which include cash, cash equivalents, short-term investments, accounts receivable and inventories, increased by 3.1% or \$261,784 while noncurrent assets, which includes restricted cash and cash equivalents and capital assets (buildings, equipment, and property) increased by 18.2% or \$8,213,795 from the previous fiscal year.

For liabilities, total liabilities increased by 33.1% or \$288,181. This was mostly due to current liabilities (accounts payable, accrued compensated absences, and payroll taxes) increasing by 40.1% or \$279,080 from FY2015. Noncurrent liabilities, which includes accrued compensated absences and deposits from students, increased by only \$9,101 or 5.2% from FY2015.

Net position, the third part of the Statement of Net Position, includes investments in capital assets, restricted funds (scholarships and special events) and unrestricted funds (funds which cover the operation of the school). As of June 30, 2016, net position increased by 23.2% or \$7,643,435 from FY2015.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Net Position – Continued

ASSETS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 10,389,647	\$ 8,252,863	\$ 8,201,179
Non-current assets	<u>51,610,327</u>	<u>45,271,532</u>	<u>45,647,795</u>
Total assets	<u>61,999,974</u>	<u>53,524,395</u>	<u>53,848,974</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>2,385,732</u>	<u>2,232,453</u>	<u>-</u>
LIABILITIES			
Current liabilities	974,556	695,476	782,232
Non-current liabilities	<u>184,543</u>	<u>175,442</u>	<u>170,341</u>
Total liabilities	<u>1,159,099</u>	<u>870,918</u>	<u>952,573</u>
NET PENSION LIABILITY	22,024,798	18,403,648	-
DEFERRED INFLOWS OF RESOURCES	<u>675,542</u>	<u>3,599,450</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	48,511,406	42,310,042	42,395,462
Restricted	3,368,261	3,102,144	3,331,110
Unrestricted	<u>(11,353,400)</u>	<u>(12,529,354)</u>	<u>7,169,829</u>
Total net position	<u>\$ 40,526,267</u>	<u>\$ 32,882,832</u>	<u>\$ 52,896,401</u>

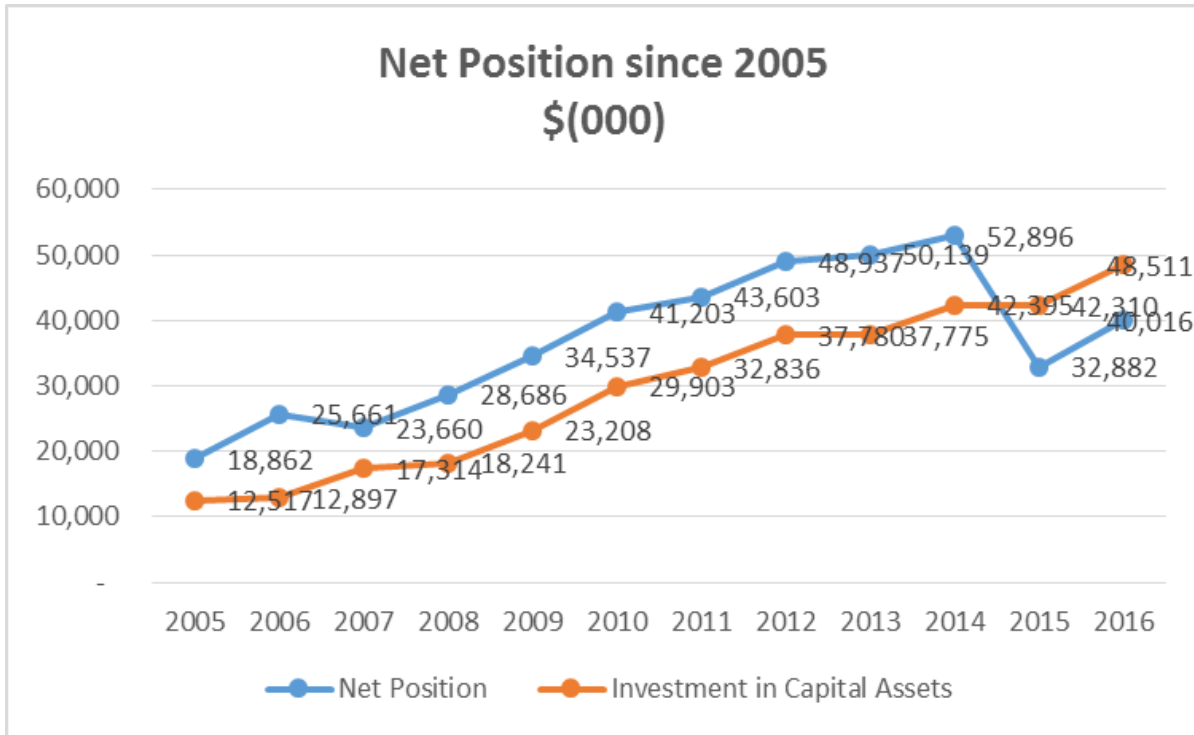
NMSD's net position has grown over the years due to the school's investment in capital assets. As stated in the chart on the next page, on June 30, 2005, net position and investment in capital assets were \$18,862,831 and \$12,517,124, respectively. Since the end of that fiscal year (FY2005) and before implementation of GASB 68, the school's net position and investment in capital assets had grown to \$40,526,267 and \$48,511,406, respectively. NMSD continues to have a strong net position base. After implementing GASB 68, the school's net position decreased due to recording net pension liability.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Net Position – Continued



Reported net position is before implementation of GASB 68 in 2016.

Statement of Revenues, Expenses, and Changes in Net Position

This statement covers three parts. The first is called operating revenues which covers federal grants and contracts, agreements such as the Joint Power Agreements, and other operating revenue. The next part covers operating expenses which includes expenditures from academic support, operation and maintenance of plant, instruction, student services, and institutional support. This section also includes depreciation and outside contracts and grants. If total operating revenues is greater than total operating expenses, there will be a net operating gain. If total operating expenses are greater than total operating revenue, then there will be a net operating loss. There is always a net operating loss, but non-operating revenues such as land and permanent fund, state appropriations, investment income and gain on disposal of capital assets offset the losses. The third part has to do with capital items such as bond proceeds appropriations. Bond proceeds appropriation covers revenues from General Obligation Bonds, Severance Tax Bonds, and funds from Public Schools Facility Authority. When the three parts are combined and show a gain, net position will increase. If there is a loss, then net position will decrease.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Revenues, Expenses, and Changes in Net Position – Continued

Operating Revenues

Operating revenues for FY2016 was \$967,525, down 4.7% from FY2015. While revenues from other operating revenues was more in FY2016 than FY2015, Federal grants and contracts revenue and joint operating agreement revenues were 14.5% and 15.5% less in FY2016 than FY2015, respectively. Other operating revenues include income from rentals, cafeteria, auditorium, interpreter week, sign language classes, and other miscellaneous income.

Federal grants and contracts cover funds from AmeriCorps, IDEA-B, and Medicare. As for the JPA, NMSD received 15.5% less in funds from public schools in FY2016 than in FY2015. Most of the funds came from the Albuquerque Public Schools (\$75,680) and Santa Fe Public Schools (\$45,000) followed by six other public schools districts.

	2016	2015	Variance	Percent
OPERATING REVENUES				
Federal grants and contracts	\$ 561,143	\$ 656,468	\$ (95,325)	-14.5%
Other operating revenues	227,203	146,745	80,458	54.8%
Joint Powers Agreements	179,180	212,030	(32,850)	-15.5%
Total operating revenues	967,526	1,015,243	(47,717)	-4.7%
OPERATING EXPENSES				
Instruction	4,227,378	3,662,296	565,082	15.4%
Academic support	3,761,734	3,866,247	(104,513)	-2.7%
Operation and maintenance of plant	2,930,492	2,991,610	(61,118)	-2.0%
Student services	2,689,214	2,821,689	(132,475)	-4.7%
Institutional support	2,507,628	2,453,977	53,651	2.2%
Depreciation	1,772,738	1,795,834	(23,096)	-1.3%
Outside contracts and grants	1,620,227	1,550,201	70,026	4.5%
Total operating expenses	19,509,411	19,141,854	367,557	1.9%
Net operating loss	(18,541,885)	(18,126,611)	(415,274)	2.3%

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Revenues, Expenses, and Changes in Net Position – Continued

	<u>2016</u>	<u>2015</u>	<u>Variance</u>	<u>Percent</u>
NON-OPERATING REVENUES (EXPENSES)				
Land and permanent fund income	14,393,823	12,243,802	2,150,021	17.6%
State appropriations	4,290,905	4,290,895	10	0.0%
Gain on disposal of capital assets	17,038	12,967	4,071	31.4%
Investment income	5,723	(2,042)	7,765	-380.3%
	<u>18,707,489</u>	<u>16,545,622</u>	<u>2,161,867</u>	13.1%
Total non-operating revenues				
Change in net position before capital items	165,604	(1,580,989)	1,746,593	-110.5%
CAPITAL ITEMS				
Bond proceeds appropriations	3,440,768	-	3,440,768	
Awards proceeds from Public School				
Facility Administration	4,037,063	1,243,968	2,793,095	0.0%
	<u>7,643,435</u>	<u>(337,021)</u>	<u>7,980,456</u>	-2367.9%
Changes in net position				
NET POSITION				
Net position, beginning of year, as previously stated	\$ 32,882,832	\$ 52,896,401	\$ (20,013,569)	-37.8%
GASB 68 implementation	<u>-</u>	<u>(19,676,548)</u>	<u>19,676,548</u>	
Net position, beginning of year, as restated	<u>32,882,832</u>	<u>33,219,853</u>	<u>(337,021)</u>	
Net position, end of year	<u>\$ 40,526,267</u>	<u>\$ 32,882,832</u>	<u>\$ 7,643,435</u>	23.2%

Operating Expenses

Operating expenses cover all aspects with operating NMSD's campuses in Santa Fe, Albuquerque, Las Cruces, and Farmington. Operating expenses include staff salaries and fringe benefits, supplies, travel, training, professional services, student transportation, groceries for dining hall, and maintenance costs. During FY2016, the school's operating expenses were \$19,509,411 and about 1.9% more than FY2015. Instruction and General covers academic support, instruction, student services, institutional support and operation and maintenance of the plant. During FY2015, \$10,678,326 covered costs associated to students (instruction, academic support, and student support) which were 3.9% more than FY2015. However, of the total Instruction and General costs for FY2016, 55% covered instruction, academic support and student support. The rest (45%) covered institutional support and operation and maintenance of the plant.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

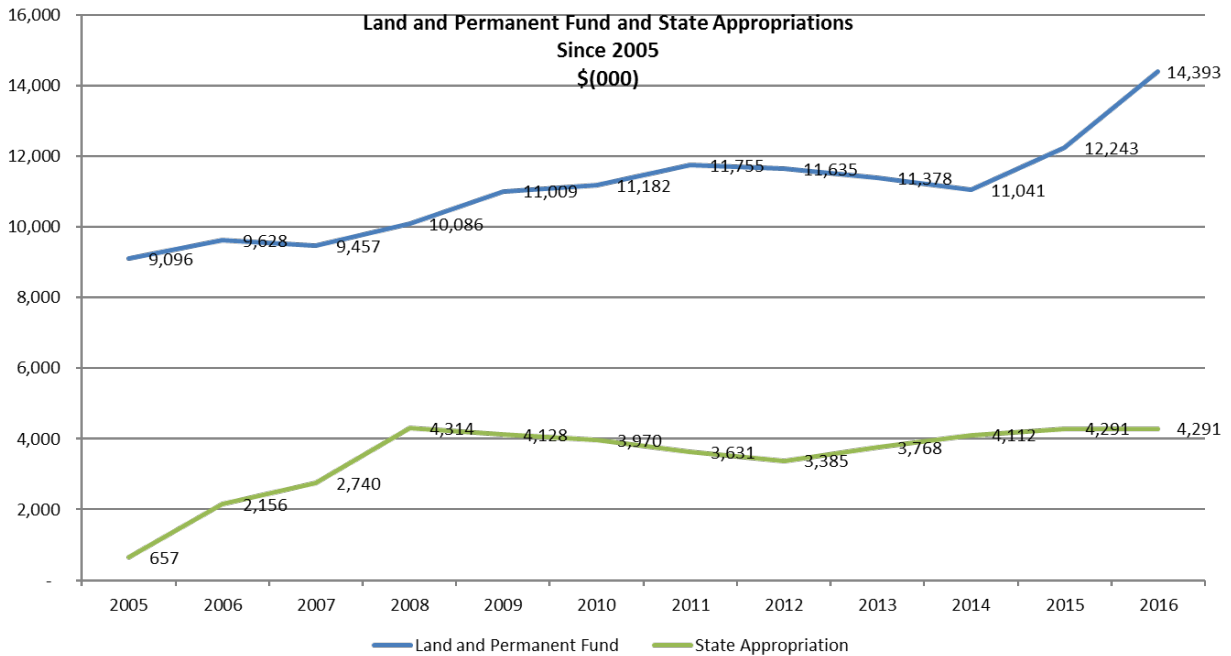
June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Revenues, Expenses, and Changes in Net Position – Continued

Non-operating Revenues

Revenues from land and permanent fund and state appropriations cover nearly 95% of NMSD's total revenues (operating, non-operating and capital). During FY2016, NMSD received \$14,393,823 from the state's land and permanent funds and \$4,290,905 from state appropriations. Revenues from the land and permanent fund were 17.6% higher than FY2015 while appropriations for FY2016 were approximately equal to FY2015. Below is a historical chart of the schools revenue from the land and permanent fund and state appropriation since June 30, 2005.



Interest income was earned from the schools investments in certificate of deposits and local government investment pool (LGIP). The school has CDs with the First National Bank of Santa Fe and LGIP is managed by the New Mexico State Treasurer's Office. The balance as of June 30, 2016 for NMSD's CD and LGIP accounts was \$339,364 and \$6,053,071, respectively.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Revenues, Expenses, and Changes in Net Position – Continued

Capital Items

During FY2016, NMSD was involved with new capital projects planning Delgado and Cartwright Halls and Site Improvements Phase II. The funds were covered by the Public Schools Facility Authority (PSFA) and by severance tax bonds. Total costs were \$7,794,346.

Effects of GASB 68

For the year ended June 30, 2015, net position decreased by \$337,021 or .7% from June 30, 2014. This brought the Schools net position to \$52,896,401 for the end of the fiscal year before the initial recording of unfunded pension liability. After recording the unfunded pension liability, in accordance with GASB 68, the net position was \$32,882,832.

Statement of Cash Flows

NMSD ended FY2016 with a cash and restricted cash equivalent balance of \$4,879,600. The cash flow statements are reported in four categories:

1. Cash flows from operating activities
2. Cash flows from non-capital financing activities
3. Cash flows from capital related financing activities
4. Cash flows from investing activities

The cash flow statements indicate the sources and uses of cash during the fiscal year. The first part is cash flows from operating activities:

	<u>2016</u>	<u>2015</u>	<u>Net Increase (Decrease)</u>	<u>Percent</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Federal grants and contract revenues	\$ 793,632	\$ 859,548	\$ (65,916)	-7.7%
Payments to vendors and suppliers	(2,965,738)	(3,151,943)	186,205	-5.9%
Payments to employees and for employee benefits	(13,934,611)	(14,174,786)	240,175	-1.7%
Other revenues	<u>163,329</u>	<u>165,655</u>	<u>(2,326)</u>	-1.4%
Net cash used in operating activities	<u>\$ (15,943,388)</u>	<u>\$ (16,301,526)</u>	<u>\$ 358,138</u>	-2.2%

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Cash Flows – Continued

During FY2016, cash used in operating activities totaled \$15,943,388 which was \$358,138, or 2.2% less compared to FY2015. The cash covered staff salaries, benefits, and operating costs such as supplies, travel, and professional services.

The next category covers non-capital financing activities. This basically covers state appropriations and the land and permanent funds. Cash inflow increased in FY2016 by \$2,168,728 or 13.3% than FY2015. State appropriations remained approximately equal, while land and permanent fund was about 18% more.

	2016	2015	Net Increase (Decrease)	Percent
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	\$ 4,290,905	\$ 4,290,895	\$ 10	0.0%
Land and permanent fund income	14,324,954	12,139,236	2,185,718	18.0%
Net cash provided by noncapital financing activities	<u>\$ 18,615,859</u>	<u>\$ 16,430,131</u>	<u>\$ 2,185,728</u>	13.3%

Cash flows from capital related financing activities cover capital outlays which includes capital projects, vehicles, and technology. During FY2016, cash inflows were \$2,517,297. Most of the inflows were from bond proceeds. The outflows for FY2016 stood at \$3,937,039. Net cash decreased by \$1,419,742 for the fiscal year.

	2016	2015	Net Increase (Decrease)	Percent
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Bond proceeds from Public Schools Facility Administration	\$ 2,517,297	\$ 368,164	\$ 2,149,133	583.7%
Purchases, construction, and/or renovation of capital assets	<u>(3,937,039)</u>	<u>(468,488)</u>	<u>(3,468,551)</u>	740.4%
Net cash used in financing activities	<u>\$ (1,419,742)</u>	<u>\$ (100,324)</u>	<u>\$ (1,319,418)</u>	1315.2%

The last category covers cash flows from investing activities. During FY2016, cash inflows were \$7,963 from interest from LGIP and CDs, up by 103.3% from FY2015.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Cash Flows – Continued

	2016	2015	Net Increase (Decrease)	Percent
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	\$ 17,038	\$ 12,967	\$ 4,071	31.4%
Proceeds from sale of equipment	5,723	-	5,723	0.0%
Purchase of investments	(14,798)	(9,051)	(5,747)	63.5%
Net cash provided by investing activities	<u>\$ 7,963</u>	<u>\$ 3,916</u>	<u>\$ 4,047</u>	103.3%

According to the State Treasurer's office, NMSD's LGIP funds are invested in US Government Obligations, Commercial Paper, and Money Market Funds.

BUDGET COMPARISONS

Within this CPA financial audit report, four schedules cover the budget vs. actuals:

1. All operations (unrestricted and restricted)
2. Unrestricted non-instruction and general
3. Unrestricted instruction and general
4. Restricted instruction and general

Schedule 1 is a combination of schedules 2, 3, and 4 where it covers all the School's budgeted and actual revenues and expenditures for FY2015. Schedules 2 through 4 are covered here.

Unrestricted Non-Instruction and General (Schedule 2)

This schedule covers capital outlays and the Educational Consultation Training (ECT) department (formerly the School's Outreach department). The capital projects included the planning and designing of Delgado and Cartwright Halls and Site Improvements Phase II. Capital outlays also included technology and vehicle purchases. Funding for capital projects came from PSFA.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

BUDGET COMPARISONS – CONTINUED

Statement of Revenues and Expenditures - Budget Comparison
Unrestricted Non-I&G

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 6,865,735	\$ 6,907,175	\$ 41,440	1%
REVENUES				
PSFA and Bond proceeds	9,027,000	7,477,830	(1,549,170)	-17%
Interest income	-	1,696	1,696	0%
Government grants and contracts	25,000	-	(25,000)	-100%
Sales and services	-	81,987	81,987	0%
Other sources	-	143,085	143,085	0%
Total revenues	9,052,000	7,704,598	(1,347,402)	-15%
EXPENDITURES				
Instruction and general:				
Public service	1,008,080	941,845	66,235	-7%
Capital outlay	9,752,000	8,437,768	1,314,232	
Renewals and replacements	130,000	124,102	5,898	-13%
Total instruction and general expenditures	10,890,080	9,503,715	1,386,365	-13%
TRANSFERS				
Transfers in	1,100,000	2,975,000	(1,875,000)	170%
Transfers out	-	-	-	0%
Total transfers	1,100,000	2,975,000	(1,875,000)	170%
Changes in net position (budgetary basis)	(738,080)	1,175,883	(1,836,037)	
Ending fund balance	<u>\$ 6,127,655</u>	<u>\$ 8,083,058</u>	<u>\$ (1,955,403)</u>	32%

During FY2016, \$1,100,000 was transferred from Unrestricted Instruction and General to cover Educational Consultation Training (ECT) salaries, benefits, and expenses. The total expenditures for ECT were \$811,525 and the difference was covered by the division's fund balance.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

BUDGET COMPARISONS – CONTINUED

Unrestricted Current Funds – Instruction and General

This schedule covers NMSD's instructional operations and its support. For the revenue side, NMSD was budgeted for \$17,759,789, but actuals were \$18,818,171. The budget for land and permanent fund was \$13,400,000, but actuals stood at \$14,393,823, which was favorable at \$993,823 or 7%. However, actuals from state appropriations balanced. Actuals from other sources ended at \$133,443, which was \$38,854 or 41% more than what was budgeted for. On the expenditure side, the final budget was \$16,207,188 and actuals were \$15,518,658, or 4% under the total budget.

Statement of Revenues and Expenditures - Budget Comparison
Unrestricted I&G

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 3,438,630	\$ (15,835,654)	\$ (19,274,284)	
REVENUES				
State appropriations	4,265,200	4,290,905	25,705	1%
Endowments and land permanent funds	13,400,000	14,393,823	993,823	7%
Other sources	94,589	133,443	38,854	41%
Total revenues	17,759,789	18,818,171	1,058,382	6%
EXPENDITURES				
Instruction and general:				
Academic support	4,074,610	3,761,734	312,876	-8%
Instruction	4,279,072	4,224,223	54,849	-1%
Institutional support	2,633,896	2,507,628	126,268	-5%
Operation and maintenance of plant	2,470,985	2,342,725	128,260	-5%
Student services	2,748,625	2,682,348	66,277	-2%
Total instruction and general expenditures	16,207,188	15,518,658	688,530	-4%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	(2,975,000)	(2,975,000)	-	0%
Total transfers	(2,975,000)	(2,975,000)	-	0%
Changes in net position (budgetary basis)	(1,422,399)	324,513	1,746,912	
Ending fund balance	\$ 2,016,231	\$ (15,511,141)	\$ (17,527,372)	45%

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

BUDGET COMPARISONS – CONTINUED

Under the transfers section, \$1,100,000 was transferred to Public Service (Educational Consultant Training) and \$1,875,000 was transferred for capital projects.

Restricted Current Funds – Instruction and General

Schedule 4 covers funds which are restricted for instruction and public services. Under this report, revenues from federal government sources such as IDEA-B, AmeriCorps, and Medicare totaled \$450,897 which was under the budget by 47% or \$396,529. Revenues from Joint Partnership Agreements with public schools earned the school \$179,180, which was more than the final budget by \$179,180.

Statement of Revenues and Expenditures - Budget Comparison
Restricted I&G

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 238,262	\$ 306,308	\$ 68,046	
REVENUES				
Federal revenue sources	847,426	450,897	(396,529)	-47%
Joint powers agreements	-	179,180	179,180	0%
Total revenues	847,426	630,077	(217,349)	-26%
EXPENDITURES				
Instruction and general:				
Instruction	847,426	682,713	164,713	-19%
Public service	-	5,690	(5,690)	0%
Total instruction and general expenditures	847,426	688,403	159,023	-19%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	-	-	-	0%
Total transfers	-	-	-	0%
Changes in net position (budgetary basis)	-	(58,326)	(58,326)	0%
Ending fund balance	<u>\$ 238,262</u>	<u>\$ 247,982</u>	<u>\$ 9,720</u>	4%

State of New Mexico
New Mexico School for the Deaf

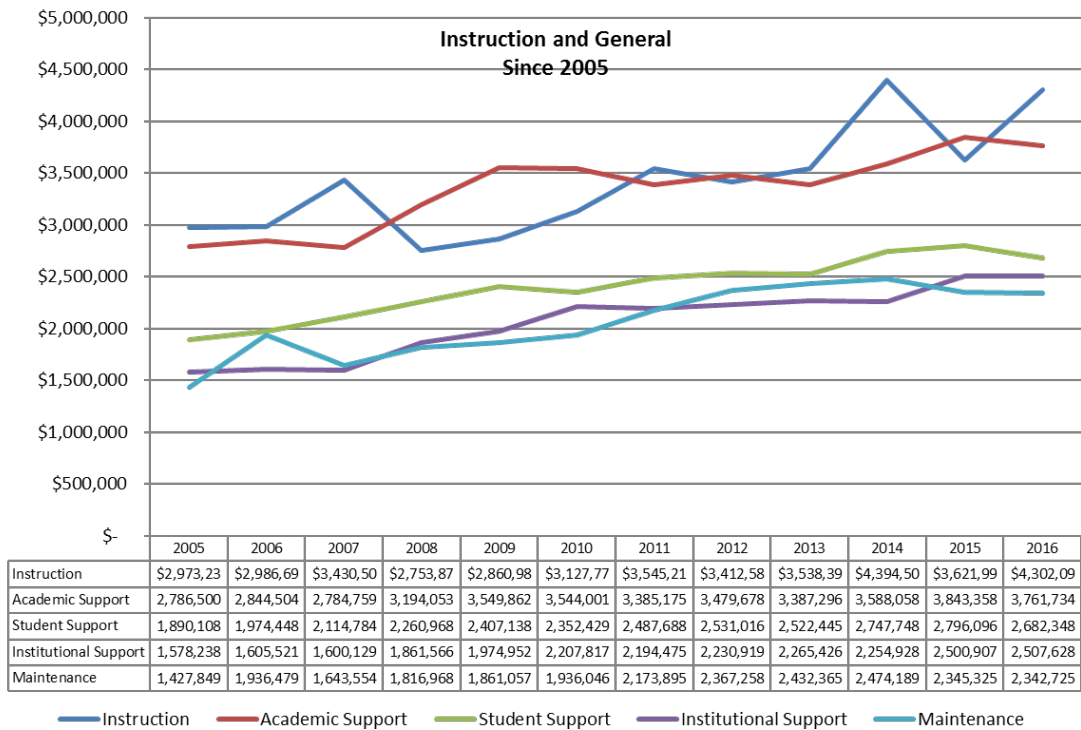
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

BUDGET COMPARISONS – CONTINUED

The net position for Restricted Funds decreased by \$58,326. The ending fund balance is \$247,982. By the end of FY2017, the fund balance should be brought down to zero since the federal contracts and grants have a different fiscal year than the State of New Mexico.

The next chart illustrates the trend in instruction and general funding since 2005. Instruction includes both unrestricted and restricted amounts.



CAPITAL ASSETS

At the end of the fiscal year June 30, 2016, the school's net capital assets stood at \$48,511,406. This was a net increase of \$6,201,364 or 14.7% from 2015.

State of New Mexico
New Mexico School for the Deaf

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

CAPITAL ASSETS – CONTINUED

	2016	2015	Net Increase (Decrease)	Percent
Buildings	\$ 37,483,064	\$ 39,126,883	\$ (1,643,819)	-4.2%
Land and improvements	1,623,400	1,623,400	-	-
Construction in progress	8,593,892	799,546	7,794,346	974.8%
Vehicles	383,793	299,051	84,742	28.3%
Artwork	209,550	209,550	-	-
Equipment and furniture	145,524	175,183	(29,659)	-16.9%
Infrastructure	72,183	76,429	(4,246)	-5.6%
Computer equipment	-	-	-	0.0%
	<u>\$ 48,511,406</u>	<u>\$ 42,310,042</u>	<u>\$ 6,201,364</u>	14.7%
Total capital assets, net				

ECONOMIC OUTLOOK

NMSD's economic outlook is closely related to its role as the only school for the deaf and hard-of-hearing in the State of New Mexico. The school serves over 600 students and children through its Santa Fe campus, and Farmington, Albuquerque, and Las Cruces preschools, and Center for Educational Consultation and Training and Early Intervention and Involvement Programs. With the increase in demand for services, funds from state appropriation and the land and permanent fund need to be stable or increased. During FY2016, a new superintendent was hired by the Board of Regents. For this reason, NMSD believes that the number of children and students will increase, thus there will be a greater demand for more services.

CONTACT INFORMATION

If you have questions about this report or need additional financial information, contact:

New Mexico School for the Deaf
1060 Cerrillos Road
Santa Fe, New Mexico 87505

State of New Mexico
New Mexico School for the Deaf

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,780,679
Certificates of deposit	339,364
Local Government Investment Pool	6,053,071
Accounts receivable, net of allowance for doubtful accounts of \$11,074	1,249,933
Severance tax bond proceeds receivable - due from DFA - Board of Finance (85300)	923,471
Inventories	<u>43,129</u>

Total current assets 10,389,647

NONCURRENT ASSETS

Restricted cash and cash equivalents	3,098,921
Capital assets, net	<u>48,511,406</u>

Total noncurrent assets 51,610,327

Total assets 61,999,974

DEFERRED OUTFLOWS OF RESOURCES 2,385,732

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

State of New Mexico
New Mexico School for the Deaf

STATEMENT OF NET POSITION - CONTINUED

June 30, 2016

CURRENT LIABILITIES	
Accounts payable	\$ 601,167
Program advances	65,289
Accrued compensated absences - current portion	178,407
Payroll taxes and fringe benefits - accrued and withheld	<u>129,693</u>
Total current liabilities	974,556
NONCURRENT LIABILITIES	
Accrued compensated absences, less current portion	35,159
Deposits from students	<u>149,384</u>
Total noncurrent liabilities	<u>184,543</u>
Total liabilities	1,159,099
NET PENSION LIABILITY	22,024,798
DEFERRED INFLOWS OF RESOURCES	<u>675,542</u>
NET POSITION	
Net investment in capital assets	48,511,406
Restricted - expendable for:	
Other programs	3,098,921
Scholarships	247,316
Special events	22,024
Unrestricted (deficit)	<u>(11,353,400)</u>
Total net position	<u>\$ 40,526,267</u>

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

State of New Mexico
New Mexico School for the Deaf

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year ended June 30, 2016

OPERATING REVENUES	
Federal grants and contracts	\$ 561,143
Other revenues	227,203
Joint Powers Agreements	<u>179,180</u>
Total operating revenues	967,526
OPERATING EXPENSES	
Instruction	4,227,378
Academic support	3,761,734
Operation and maintenance of plant	2,930,492
Student services	2,689,214
Institutional support	2,507,628
Depreciation	1,772,738
Outside contracts and grants	<u>1,620,227</u>
Total operating expenses	<u>19,509,411</u>
Net operating loss	(18,541,885)
NON-OPERATING REVENUES	
Land and permanent fund income	14,393,823
State general fund appropriations	4,290,905
Investment income	17,038
Gain on disposal of capital assets	<u>5,723</u>
Total non-operating revenues	<u>18,707,489</u>
Change in net position before capital items	165,604
CAPITAL ITEMS	
Severance tax bond proceeds	3,440,768
Bond proceeds from Public Schools Facility Administration	<u>4,037,063</u>
Change in net position	7,643,435
NET POSITION	
Net position, beginning of year	<u>32,882,832</u>
Net position, end of year	<u><u>\$ 40,526,267</u></u>

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

State of New Mexico
New Mexico School for the Deaf

STATEMENT OF CASH FLOWS

Year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Federal grants and contract revenues	\$ 793,632
Payments to vendors and suppliers	(2,965,738)
Payments to employees and for employee benefits	(13,934,611)
Other revenues	<u>163,329</u>
Net cash used in operating activities	(15,943,388)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	4,290,905
Land grant permanent fund income	<u>14,324,954</u>
Net cash provided by noncapital financing activities	18,615,859
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Severance tax bond proceeds	2,517,297
Purchases, construction, and/or renovation of capital assets	<u>(3,937,039)</u>
Net cash used in financing activities	(1,419,742)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	17,038
Proceeds from sale of equipment	5,723
Purchase of investments	<u>(14,798)</u>
Net cash provided by investing activities	<u>7,963</u>
NET INCREASE IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS	1,260,692
Cash and restricted cash and cash equivalents - beginning of year	<u>3,618,908</u>
Cash and restricted cash and cash equivalents - end of year	<u><u>\$ 4,879,600</u></u>

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

State of New Mexico
New Mexico School for the Deaf

STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2016

**RECONCILIATION OF NET OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES**

Net operating loss	\$ (18,541,885)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	1,772,738
Changes in assets and liabilities:	
Accounts receivable	(15,851)
Inventory	9,466
Accounts payable	207,888
Accrued liabilities and compensated absences and deposits	75,007
Program advances	5,286
Change in net pension liability	3,621,150
Change in deferred outflows of resources	(153,279)
Change in deferred inflows of resources	<u>(2,923,908)</u>
Net cash used in operating activities	<u>\$ (15,943,388)</u>

**SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL
AND RELATED FINANCING ACTIVITIES**

	<u>2016</u>
Capital assets acquired through payments made by Public Schools Facility Administration	<u>\$ 4,037,063</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – ORGANIZATION

The New Mexico School for the Deaf (the School or NMSD) was established as a state educational institution by Section 21, Article VI, of the Constitution of the State of New Mexico, and is responsible for providing free public education for deaf and hard-of-hearing children. Pursuant to Section 13, Article XII of the Constitution, the State Legislature has provided for the control and management of the institution by a Board of Regents consisting of six members appointed by the Governor, who also serves as an ex-officio member of the Board.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) consists 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".

A primary government is any state government or general purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are for financial reporting purposes, part of the primary government. The School is a component unit of the State of New Mexico and its financial data is included with the financial data of the State. The School has no component units.

2. Basis of Presentation and Accounting

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This was followed by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* in November 1999; which applied GASB 34 to Public Colleges and Universities.

For financial reporting purposes, under GASB 34, GASB 35, and State Audit Rule, the School is considered a special-purpose government engaged only in business-type activities. Accordingly, the School's primary institution financial statements have been presented in a single column using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Deferred inflows and deferred outflows of resources are now included in the elements that make up a statement of financial position and GASB Statement No. 63 introduces the term "net position" for reporting the residual of all elements in a statement of financial position. See Note H1 for more information on the implementation of GASB 68.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation and Accounting - Continued

The significant accounting policies are summarized in Note B and include accounting standards adopted in recent years as detailed below.

The School implemented Government Accounting Standards Board (GASB) Statement No. 62 “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*” (GASB 62) which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

The School implemented Governmental Accounting Standards Board Statement No. 63 “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” (GASB 63). Deferred outflows of resources consumed and deferred inflows of resources received and available are now included in the elements that make up a statement of net financial position reporting the residual of all elements in a statement of financial position. The statement of financial position of the Institute conforms to the presentation requirements of GASB 63.

The School implemented Governmental Accounting Standards Board Statement No. 65 “*Items Previously Reported as Assets and Liabilities*” (GASB 65), which changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. There were deferred outflows and inflows of resources to separately report at June 30, 2016.

The School implemented Governmental Accounting Standards Board Statement No. 72 “*Fair Value Measurements and Application*” (GASB 72), which requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement is effective for periods beginning after June 15, 2015. There were no assets or liabilities measured at fair value to separately disclose at June 30, 2016.

The School implemented Governmental Accounting Standards Board Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the Importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation and Accounting - Continued

the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. This Statement is effective for FY 2016, and should be applied retroactively.

The School early adopted Governmental Accounting Standards Board Statement No. 79 *Certain External Investment Pools and Pool Participants* (GASB 79), to address changes in the regulatory provisions referenced by previous accounting and financial reporting standards for certain external investment pools and their participants. Those provisions were based on the Investment Company Act of 1940, Rule 2a7 whereby external investment pool investments were measured at amortized cost. Rule 2a7 contains the Securities and Exchange Commission's (SEC) regulations that apply to money market funds and the SEC essentially eliminated Rule 2a7 in 2014. GASB 79 provides for continuation of amortized cost accounting and reporting for external investment pools such as the Local Government Investment Pool (LGIP), which is a 2a7-like pool, instead of converting to fair value measurement. The New Mexico State Treasurer has elected to early implement GASB 79 and its participants qualify for accounting for the investment pool at amortized cost which approximates fair value. This statement is effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 and early application is encouraged.

The School engages in federal grant programs commonly referred to as "reimbursement type" programs. These grant programs require that the recipient (the School) must incur allowable costs as defined by the grant agreement in order to draw down funds against the particular grant. This is the principal eligibility requirement for the recognition of the revenue. Upon incurring an allowable cost, the School simultaneously recognizes a receivable and revenue in the amount of the expenditures incurred. All other eligibility requirements or grants, as applicable, must also be satisfied. The School also received Medicaid Part C fees recorded under federal grants and contracts which are not subject to single audit requirements.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Government Accounting Standards Board (GASB) and the Higher Education Department's Financial Reporting for Public Institutions in New Mexico.

The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the School's assets, liabilities, deferred inflows and deferred outflows as applicable, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash on hand and any current investments, which are defined as investments that are readily convertible to cash or reach their original maturity date within three months. Cash restricted by grants, Joint Powers Agreements and collected for auxiliary projects is included in cash and cash equivalents.

4. Accounts Receivable

Accounts receivable includes services provided to students, faculty, and staff and amounts due from the federal government, state and local governments, with reimbursement of allowable expenditures. Accounts receivable are recorded net of estimated allowance for doubtful accounts.

5. Inventories

Inventories consist of departmental inventories, classroom and laboratory supplies, teaching materials, food and related items, and office supply items which are consumed in the teaching and administrative process. Inventories are stated at the lower of cost or market, with cost being determined by the first in, first out basis.

6. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. The School's capitalization policy is in compliance with Section 12-6-10 NMSA 1978 and includes all items with a unit cost in excess of \$5,000 beginning with the year ended June 30, 2006. For 2005 and earlier years, assets greater than \$1,000 were capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Certain buildings are componentized and depreciated based on the useful life of each individual component, such as flooring, structure, or roof with the depreciable lives ranging from 12 to 50 years. The School records depreciation over 6 or 15 years for equipment and 5 years for automotive equipment. Software is not reported as a separate line item, but rather is reported as included in the cost of hardware and depreciated along with associated hardware. Land and land improvements, artwork and construction in progress are not depreciated.

7. Annual and Sick Leave Policies

School policy allows accumulated annual leave for individuals employed by the School to be paid upon termination. The amount of annual leave that may be paid is 240 hours. Accumulated sick leave up to 400 hours (above 600 hours for 12-month employees, 550 for 11-month employees, 500 for 10-month employees and 450 hours for the remaining school year employees) is paid upon termination at one-half the employee's hourly rate.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Position

The School's net positions are classified as follows:

Invested in capital assets: This represents the School's capital assets less depreciation, net of any outstanding debt obligations related to those capital assets. Capital assets are defined as tangible or intangible assets that are used in operations and have a useful life beyond a single reporting period. The School had no debt related to capital assets for 2016.

Restricted net position – expendable: Restricted expendable net position include resources which the School is obligated to spend in accordance with restrictions imposed by external third parties. Restrictions imposed on asset use can be 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, which includes a legally enforceable requirement that the resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party to use resources created by enabling legislation only for purposes specified by the legislation. The amount of net position restricted by enabling legislation and the amount of restricted net position from State sources are both \$0 at June 30, 2016.

Restricted net position – nonexpendable: Nonexpendable restricted net position consist of endowment and similar type assets for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. There is no nonexpendable restricted net position at June 30, 2016.

Unrestricted net position: Unrestricted net position represents all other resources that are not restricted or invested in capital assets including those derived from student fees, State appropriations, sales and services. These resources are used for transactions relating to the educational and general operations of the School, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense that can be paid using either restricted or unrestricted resources is incurred, the School's policy is to first apply the expense to restricted resources, and then to those that are unrestricted.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Income Taxes

The income generated by the School, as an instrumentality of the State of New Mexico, is generally exempt from federal income tax under Section 115(a) of the Internal Revenue Code. However, taxes will be assessed at the normal corporate rates on income derived from business activities not substantially related to the School's exempt function (unrelated business income under Internal Revenue Code Section 511). Contributions to the School are deductible by donors as provided under Section 170 of the Internal Revenue Code.

10. Classification of Revenues

The School has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student fees; (2) sales and services of auxiliary enterprises; and (3) most federal, state and local grants and contracts, and transactions arising from joint power agreements.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, State appropriations, investment income, bond proceeds appropriations and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

11. Classification of Expenses

The School has classified its expenses as either operating or non-operating expenses according to the following criteria:

Operating expenses: Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) utilities, supplies, and other services; (3) professional fees; and (4) depreciation expenses related to School property, plant, and equipment.

Non-operating expenses: Non-operating expenses include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and other expenses that are defined as non-operating expenses by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Budgetary Process

Operating budgets are submitted for approval by the Board of Regents, the New Mexico Higher Education Department (HED), and the New Mexico Department of Finance and Administration-State Budget Division (DFA). Similarly, budget adjustment requests are submitted to and approved by the Board of Regents, then forwarded to the HED and DFA.

These State-level agencies develop consolidated funding recommendations for all higher education institutions which are considered for appropriation during the annual legislative sessions. If total expenditures by branch are expected to exceed the approved budget, the School is required to submit a Board of Regents approved Budget Adjustment Request to the HED which is subsequently forwarded to the DFA. The legal level of budgetary control is at functional category levels as defined for higher education entities.

The budgetary basis, used by the School as confirmed with the Higher Education Department of the State of New Mexico is full accrual except for capital outlay and the utilization of bond proceeds. Annual depreciation is not budgeted. There is no restricted non instructional and general budget schedule applicable to the School.

13. Appropriations

In general, unexpended State appropriations to the School do not revert at the end of each fiscal year. (None of the current appropriations received are subject to reversion. NMSA 1978 6-4-2.) The School received an annual non-reverting State General Fund appropriation of approximately \$4,290,905 for fiscal year 2016, Laws 2015, Chapter 101, Section 4. The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2016.

14. Land Grant Permanent Income

The School is a beneficiary of the Ferguson legislation (1898) whereby lands of the State of New Mexico were allocated to the benefit of state educational institutions including income derived there from. NMSA 19-1-17 1978 is the enabling legislation to allocate specific lands to educational institutions including the School. Currently oil and gas royalties, coal royalties, and grazing fees produce investment income which is distributed monthly to beneficiaries based on their allocated lands.

15. Other Accrued Liabilities

Accrued liabilities include pension benefits accrued and withheld, certain insurance amounts payable, and miscellaneous payroll amounts accrued and withheld.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

17. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Educational Retirement Board (ERB) and the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from ERB's and PERA's fiduciary net positions have been determined on the same basis as they are reported by ERB and 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.

18. Subsequent Events

Subsequent events have been evaluated through November 14, 2016, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2016. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTE C – CASH, INVESTMENT IN LOCAL GOVERNMENT INVESTMENT POOL

The Board of Regents of New Mexico School for the Deaf acts as the Board of Finance for the School under Section 6-10-9, NMSA 1978. As such, it shall receive, handle, invest, and account, as provided by law, for all public monies received by it, and shall deposit the funds in a depository or depositories qualified in accordance with the requirements of the Public Money Act. The School does not have an investment policy apart from State statute.

Deposits, restricted and unrestricted cash, investment in Local Government Investment Pool (LGIP), and certificates of deposits are carried at amortized cost, which approximates fair value. Restricted and unrestricted cash, net of overdrafts, at June 30, 2016, (book balances) were \$4,879,600. The School's investment in the LGIP and certificates of deposits combined book balances were \$6,392,435. Restricted and unrestricted cash net of overdrafts in the amount of \$6,702,969 are fully insured or collateralized with securities held by the bank's agent pledged to the School or the Federal Deposit Insurance Corporation (FDIC).

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE C – CASH, INVESTMENT IN LOCAL GOVERNMENT INVESTMENT POOL – CONTINUED

Depository Account	Bank Balance
Insured	\$ 250,000
Collateralized	6,452,969
Uninsured and uncollateralized	-
Total deposits	\$ 6,702,969

Disclosure

Custodial Credit Risk – Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The School does not have a deposit policy apart from compliance with state statutes. As of June 30, 2016, the School’s deposits were fully insured or collateralized. See Schedule 6.

The remaining balance of \$6,053,071 in the local government investment pool is valued by the State Treasurer. The School has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*.

The investment in the State Treasurer’s investment pool is valued at amortized cost, which approximates fair value. The State Treasurer’s interpretation of GASB 31, as amended by GASB 79, is that LGIP currently meets all of the necessary criteria to elect to measure all of the investments in LGIP at amortized cost. The State Treasurer Local Government Investment Pool (LGIP) is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other State investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the funds were invested. Participation in the local government investment pool is voluntary. An acceptable method of reporting interest rate risk is “the weighted average maturity” (WAM). The School has no control over the State Treasurer’s investment pools and provides the following disclosure provided by the State Treasurer’s Office concerning the School’s investment in the *New Mexico* LGIP:

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE C – CASH AND INVESTMENTS – CONTINUED

June 30, 2016

New Mexico LGIP AAAM rated \$6,053,071 [44] day WAM(R) and [77] day WAM(F)

Its investments at amortized cost should disclose the presence of restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) to disclose in accordance with GASB 79.

As the School's investment in LGIP is under \$30 million, its balance may be withdrawn within 24 hours of notice to the NMSTO.

NOTE D – CAPITAL ASSETS

Capital assets as detailed below are stated at cost, or if contributed, at fair market value at the date of gift. Changes in capital asset balances for the year ended June 30, 2016 were as follows:

Asset Description	2016			
	Balance at 6/30/2015	Current Year Additions	Current Year Deletions	Balance at 6/30/2016
Non-depreciable				
Construction in progress	\$ 799,546	\$ 7,794,346	\$ -	\$ 8,593,892
Land and improvements	1,623,400	-	-	1,623,400
Artworks	209,550	-	-	209,550
Depreciable				
Buildings	56,879,721	-	-	56,879,721
Equipment and furniture	789,341	6,250	-	795,591
Computers	141,895	-	-	141,895
Automotive equipment	1,315,371	173,506	71,259	1,417,618
Infrastructure	127,382	-	-	127,382
Capital assets	61,886,206	7,974,102	71,259	69,789,049
Accumulated depreciation				
Buildings	17,752,838	1,643,819	-	19,396,657
Equipment and furniture	614,158	35,909	-	650,067
Computers	141,895	-	-	141,895
Automotive equipment	1,016,320	88,764	71,259	1,033,825
Infrastructure	50,953	4,246	-	55,199
Total accumulated depreciation	19,576,164	1,772,738	71,259	21,277,643
Total net capital assets	\$ 42,310,042	\$ 6,201,364	\$ -	\$ 48,511,406

Depreciation expense is \$1,772,738 for the year ending June 30, 2016.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE E – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2016:

	2016
Land and permanent fund	\$ 1,058,657
Federal funding sources	185,842
Other receivables	16,508
Total receivables	1,261,007
Allowance for doubtful accounts	(11,074)
Net amounts receivable	\$ 1,249,933

The allowance for doubtful accounts includes consideration for the credit risk associated with the various receivables. This allowance is attributed to accounts that have been deemed to be 100% uncollectible.

NOTE F – LONG-TERM LIABILITIES

On June 30, the School had the following accrued compensated absences:

	2015	Increase	Decrease	2016
Accrued sick leave	\$ 69,060	\$ 25,239	\$ 35,741	\$ 58,558
Accrued annual leave payable	131,575	146,395	122,962	155,008
Total accrued compensated absences	\$ 200,635	\$ 171,634	\$ 158,703	\$ 213,566

Amounts due within one year for the year ended June 30, 2016 is \$178,407. Current operations liquidate compensated absences liabilities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS

The School offers the following retirement and benefit plans:

1. Educational Retirement Act

Plan description: ERB was created by the state's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico Legislature has the authority to set or amend contribution rates. Substantially all of the School's employees who are certified school instructors participate in ERB.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

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

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date is as follows: the member's age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees, the COLA was immediately reduced until the Plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Contributions: The contribution requirements of defined benefit plan members and the School are established in State Statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. For the fiscal year ended June 30, 2016 employers contributed 13.90% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions to the pension plan from the School were \$608,891.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. At June 30, 2016, the School reported a liability of \$8,705,975 for its proportionate share of the net pension liability. The School's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2015. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, the (School's) proportion was .14953 percent, which was a decrease of .00327 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$942,561. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 167,704
Changes in assumptions	333,134	-
Net difference between projected and actual earnings on pension plan investments	-	55,453
Changes in proportion and differences between the School's contributions and proportionate share of contributions	517,331	146,692
The School's contributions subsequent to the measurement date	608,891	-
Total	\$ 1,459,356	\$ 369,849

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

\$608,891 reported as deferred outflows of resources related to pensions resulting from the School's contributions, subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (202,443)
2018	(174,717)
2019	31,065
2020	<u>(134,521)</u>
	<u>\$ (480,616)</u>

Actuarial assumption. As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if certain conditions are met.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014, and
5. For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2015 using Scale AA (one year setback for females)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2015 and 2014 for 30-year return assumptions are summarized in the following table:

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New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

<u>Asset Class</u>	<u>2015 Long-Term Expected Real Rate of Return</u>	<u>2014 Long-Term Expected Real Rate of Return</u>
Cash	1.50%	1.50%
Treasuries	2.00%	2.00%
IG Corp Credit	3.50%	3.50%
MBS	2.25%	2.25%
Core Bonds	2.53%	2.53%
TIPS	2.50%	2.50%
High Yield Bonds	4.50%	4.50%
Bank Loans	5.00%	5.00%
Global Bonds (Unhedged)	1.25%	1.25%
Global Bonds (Hedged)	1.38%	1.38%
EMD External	5.00%	5.00%
EMD Local Currency	5.75%	5.75%
Large Cap Equities	6.25%	6.25%
Small/Mid Cap	6.25%	6.25%
International Equities (Unhedged)	7.25%	7.25%
International Equities (Hedged)	7.50%	7.50%
Emerging International Equities	9.50%	9.50%
Private Equity	8.75%	8.75%
Private Debt	8.00%	8.00%
Private Real Assets	7.75%	7.75%
Real Estate	6.25%	6.25%
Commodities	5.00%	5.00%
Hedge Funds Low Vol	5.50%	5.50%
Hedge Funds Mod Vol	5.50%	5.50%

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Act – Continued

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
NMSD's proportionate share of the net pension liability	\$ 13,032,429	\$ 9,685,456	\$ 6,873,651

Pension plan fiduciary net position: Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for the years ended June 30, 2015 and 2014, which are publicly available at www.nmerb.org.

Payables to the pension plan: There were no payables to the Plan from the School as of and for the year ended June 30, 2016.

2. PERA Retirement 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 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 in the Volunteer's 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. Substantially all of the School's full-time non-educational employees participate in PERA.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

Benefits provided: For a description of the benefits provided and recent changes to the benefits, see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf.

Contributions: The contribution requirements of defined benefit plan members and the School are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY15 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures of the PERA FY15 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf. The PERA coverage options that apply to the School is the State General. Statutorily required contributions to the pension plan from the School were \$819,557 and employer paid member benefits that were “picked up” by the employer were \$0 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows 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, 2015, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2015.

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 School’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, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY2015 are included in the total contribution amounts. 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.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

For PERA Fund Division State General, at June 30, 2015, the School reported a liability of \$12,339,342 for its proportionate share of the net pension liability. At June 30, 2014, the School's proportion was .5489 percent, which an increase of .089 percent. For the year ended June 30, 2016, the School recognized PERA Fund Division State General pension expense of \$905,298. At June 30, 2016, the School reported PERA Fund Division State General Fund deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	252,150
Net difference between projected and actual earnings on pension plan investments	-	22,581
Difference between expected and actual experience	106,819	30,962
The School's contributions subsequent to the measurement date	<u>819,557</u>	<u>-</u>
Total	<u>\$ 926,376</u>	<u>\$ 305,693</u>

\$819,557 reported as deferred outflows of resources related to pensions resulting from the School contributions subsequent to the measurement date of June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 215,139
2018	215,139
2019	215,139
2020	(445,543)
2021	<u>-</u>
	<u>\$ 199,874</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G– RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

Actuarial assumptions: As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2014 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
• Investment rate of return	7.75% annual rate, net of investment expense
• Payroll growth	3.50% annual rate
• Projected salary increases	3.50% to 14.25% annual rate
• Includes inflation at	3.00% annual rate

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

US Equity	21.10%	5.00%
International Equity	24.80%	5.20%
Private Equity	7.00%	8.20%
Core and Global Fixed Income	26.10%	1.85%
Fixed Income Plus Sectors	5.00%	4.80%
Real Estate	5.00%	5.30%
Real Assets	7.00%	5.70%
Absolute Return	4.00%	4.15%
	<hr/>	
Total	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate: The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the School's net pension liability in each PERA Fund Division that the School participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

NMSD's proportionate share of the net pension liability	\$ 18,137,496	\$ 12,339,342	\$ 7,459,308
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Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued FY15 PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the pension plan: There were no payables to the Plan from the School as of and for the year ended June 30, 2016.

3. IRC 125 – Cafeteria Plan

The School maintains an IRC Section 125 cafeteria plan for its employees. Qualified expenditures for the Plan include:

- a. Health benefits
- b. Term life insurance
- c. Dependent term life insurance
- d. Dependent care
- e. Medical care expense reimbursement

The School is the Plan administrator.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

4. Tax Sheltered Annuity

The School maintains a tax sheltered annuity plan under Section 403(b) of the IRC. Neither the School nor the State makes any contributions to this plan.

5. Post Employment Benefits – State Retiree Health Care Plan

Plan Description: The New Mexico School for the Deaf, as an employer, 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 New Mexico 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 the period of time made contributions as a participant in RHCA's 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 New Mexico Retiree Health Care Act (NMRHCA) (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 NMRHCA 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 NMRHCA or viewed on their website at www.nmrhca.state.nm.us.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

5. 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 plans 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, 2016, the statutes 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, 2016, 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 School's contributions to the RHCA for the year ended June 30, 2016, 2015, and 2014 were \$187,875, \$185,435, and \$176,670, respectively, which equal the required contributions for each year.

NOTE H – COMMITMENTS

Construction Commitments and Financing

During 2015, the School has entered into contracts with Dekker/Perish/Sabitini and Bradbury Stamm for the School's Site Improvements Phase II (Project P13-008) Cartwright Hall (Project P15-010) and Delgado Hall (Project P15-011) projects. These projects will be completed during various times starting in FY2017. These projects are funded by general obligation and/or severance tax bonds and administered through the Public Schools Facility Authority (PSFA). The amount of the projects are approximately \$10,000,000.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE I – RISK MANAGEMENT ACTIVITIES

The School participates in the State of New Mexico Risk Management Program (Risk Management), which provides liability, medical malpractice and physical damage insurance. The School pays premiums for its participation. From time-to-time the School is subject to lawsuits, including personnel and student liability matters in the ordinary course of business. No lawsuit settlements or outcomes have exceeded insurance coverage for the last 3 years.

NOTE J – CONTINGENCY

The School receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. School administration believes that the liability, if any, for reimbursement which may arise as the result of audits, would not be material.

NOTE K– JOINT POWERS AGREEMENTS

The School has entered into joint powers agreements to provide services to deaf and hard-of-hearing children in school districts throughout New Mexico. The school districts pay for services from the School to benefit children in their district. The school districts are considered governmental agencies and are required to have their own financial audit. These agreements are renewed annually.

The following is a list of participating school districts:

Albuquerque Public Schools	Farmington Public Schools
Las Cruces Public Schools	Aztec Public Schools
Rio Rancho Public Schools	Taos Public Schools
Santa Fe Public Schools	Gadsen Public Schools
Las Vegas Public Schools	Central Consolidated Schools

The School has entered into a school district master joint powers agreement with the Public School Facility Authority (PSFA) whereby both parties will work together in completing capital outlay projects. The Public School Capital Outlay Act, Chapter 22, Article 24 NMSA 1978 is to ensure that the physical condition of public school facilities in New Mexico meets an adequate level to promote safe, functional and durable learning environments for student success. The PSFA is created pursuant to 22-24-9 NMSA 1978 and is empowered to work with school districts to validate requests for grants assistance, oversee contracts and provide oversight and management of planning construction and maintenance of school facilities.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE L – BOND ACCOUNTING

Public Schools Finance Authority (PSFA)

The 2014 legislature appropriated \$7,038,365 under HB 55 Section 46 for New Mexico School for the Deaf Cartwright Hall project. The project is administered by the PSFA. The appropriation is from the unexpended proceeds of severance tax bonds issued for other projects. PSFA participates in the proposal and procurement process and pays approved invoices directly to the vendor. The New Mexico School for the Deaf records capital projects income based on approved amounts as reported on the PSFA website. The amount recorded as awards proceeds is \$4,037,063 for 2016.

Board of Finance

The School has periodically received severance tax and general obligation bond appropriations for capital asset projects on the Campus of the School. Bond accounting for the State of New Mexico conforms to DFA instructions based on Governmental Accounting Standards No. 33. Bond revenue is recorded only when eligibility requirements have been met. The eligibility requirements for capital projects financed by bonds are satisfied when all required documentation to support a drawdown of a bond fund is submitted and approved by the Board of Finance. See Schedule 10.

NOTE M– INTERAGENCY TRANSFERS

During the year, the following cash transfers were made from the State of New Mexico's General Fund (SHARE Fund 85300) to the School.

	<u>2016</u>
General Fund Appropriations	<u>\$ 4,290,905</u>
Bond Proceed Appropriations – Approved draws as detailed In schedule 10	<u>\$ 3,440,768</u>

NOTE N– NEW ACCOUNTING STANDARDS

GASB 74

Governmental Accounting Standards Board Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is intended to enhance the decision-usefulness of the financial reports of OPEB plans, their value for assessing accountability and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. GASB 74 basically

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE N– NEW ACCOUNTING STANDARDS – CONTINUED

GASB 74 – Continued

parallels GASB 67 and replaces Statements No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 74 requires enhanced note disclosures and is effective for financial statements for fiscal years beginning after June 15, 2016 (FY 17). Management has not yet fully determined the impact of GASB 74.

GASB 75

Governmental Accounting Standards Board Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). Management has not yet fully determined the impact of GASB 75.

GASB 74/75 revises existing guidance for governments that provide their employees with postemployment benefits other than pensions. A principal change is the requirement to record a government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for multiemployer cost sharing plan. The School is a participating member of the New Mexico Retiree Health Care Fund (RHCF) administered by the Retiree Health Care Authority (RHCA), a multiemployer cost sharing plan. Information to implement this standard will be developed by RHCA and the State of New Mexico. The FY2017 financial statements will contain a material liability for participation in RHCF.

GASB 79

Governmental Accounting Standards Board Statement No. 79 “*Certain External Investment Pools and Pool Participants*” (GASB 79) addresses accounting and financial reporting for certain investment pools and pool participants. The statement establishes criteria for an external investment pool to qualify and elect to measure its investments at amortized cost for financial reporting purposes. If an external investment pool meets the criteria in the statement and measures all of its investments at amortized cost, the pool participants should measure their investments at amortized cost. If the external investment pool does not meet the criteria, the pool participants should measure their investments in the pool at fair value.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

NOTE N– NEW ACCOUNTING STANDARDS – CONTINUED

GASB 79 – Continued

Management of the State Treasurer’s office has represented that the LGIP meets all the necessary criteria to elect to measure all of its investments in the pool at amortized cost. The participant account balance should therefore be reported as amortized cost, which approximates fair value based on the current investment balance in the LGIP. There is required notice of 24 hours before withdrawing funds.

GASB 82

Governmental Accounting Standards Board Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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* addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The School is affected only by the first item which changes the RSI information presented from “covered-employee payroll” which is the payroll of employees that are provided with pensions through the pension plan to “covered payroll” which is the payroll on which contributions to a pension plan are based. GASB 82 is effective for financial statements for fiscal years beginning after June 15, 2016 (FY 17) though earlier application is encouraged. The School will apply the provisions of this statement in the current year.

REQUIRED SUPPLEMENTARY INFORMATION

State of New Mexico
New Mexico School for the Deaf

REQUIRED SUPPLEMENTARY INFORMATION - ERB

June 30, 2016

**SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Education Retirement Board (ERB) Plan
Last 10 Fiscal Years***

	2016
NMSD's proportion of the net pension liability (asset)	\$ 9,685,456
NMSD's proportionate share of the net pension liability (asset)	0.14953%
NMSD's covered-employee payroll	\$ 4,082,648
NMSD's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	237%
Plan fiduciary net position as a percentage of the total pension liability	63.97%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for those years for which information is available.

**SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S CONTRIBUTIONS
Education Retirement Board (ERB) Plan
Last 10 Fiscal Years****

	2016
Contractually required contribution	\$ 608,891
Contributions in relation to the contractually required contribution	608,891
Contribution deficiency (excess)	\$ -
NMSD's covered-employee payroll	\$ 4,082,648
Contributions as a percentage of covered-employee payroll	14.91%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for those years for which information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - ERB

June 30, 2016

Changes of benefit terms: The COLA and retirement eligibility benefits changes in recent years are described in the **Benefits Provided** subsection of the financial statement note disclosure **General Information on the Pension Plan**.

Changes of assumptions: ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on June 12, 2015, ERB implemented the following changes in assumptions for fiscal years 2015 and 2014.

1. Fiscal year 2015 and 2014 valuation assumptions that changed based on this study:
 - a. Lower wage inflation from 4.75% to 4.25%
 - b. Update the mortality tables with generational improvements
 - c. Update demographic assumptions to use currently published tables, which may result in minor calculation changes.
 - d. Population growth per year decrease from 0.50% to 0.00%
2. Assumptions that were not changed:
 - a. Investment return will remain at 7.75%
 - b. Inflation will remain at 3.00%
 - c. Payroll growth will remain at 3.50%
 - d. COLA assumption will remain at 2.00% per year

See also the **Actuarial Assumptions** subsection of the financial statement note disclosure **General Information on the Pension Plan**.

State of New Mexico
New Mexico School for the Deaf

REQUIRED SUPPLEMENTARY INFORMATION - PERA

June 30, 2016

**SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Public Employees Retirement Association (PERA) Plan
PERA Fund Division State General
Last 10 Fiscal Years*****

	2016
NMSD's proportion of the net pension liability (asset)	\$ 12,319,370
NMSD's proportionate share of the net pension liability (asset)	0.54989%
NMSD's covered-employee payroll	\$ 4,823,758
NMSD's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	255%
Plan fiduciary net position as a percentage of the total pension liability	76.99%

*** The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for those years for which information is available.

**SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S CONTRIBUTIONS
Public Employees Retirement Association (PERA) Plan
PERA Fund Division State General
Last 10 Fiscal Years******

	2016
Contractually required contribution	\$ 819,557
Contributions in relation to the contractually required contribution	819,557
Contribution deficiency (excess)	\$ -
NMSD's covered-employee payroll	\$ 4,823,758
Contributions as a percentage of covered-employee payroll	16.99%

**** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for those years for which information is available.

State of New Mexico
New Mexico School for the Deaf

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PERA

June 30, 2016

Changes of benefit terms: The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at http://www.saonm.org/media/audits/366_Public_Employees_Retirement_Association_FY2015.pdf.

Changes of assumptions: The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2015 report is available at the following website: <http://www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/6-30-2015-PERA-Valuation-Report-FINAL.pdf> and contains information regarding current assumptions used in Appendix C to the report.

SUPPLEMENTARY INFORMATION

State of New Mexico
New Mexico School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON
UNRESTRICTED AND RESTRICTED - ALL OPERATIONS**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 17,863,580	\$ 10,542,627	\$ (8,622,171)	\$ (19,164,798)
REVENUES				
State general fund appropriations	4,290,900	4,265,200	4,290,905	25,705
Land grant permanent funds	12,575,000	13,400,000	14,393,823	993,823
Federal revenue sources	285,000	872,426	450,897	(421,529)
Joint Powers Agreements	204,114	-	179,180	179,180
PSFA and severance tax bond proceeds	7,000,000	9,027,000	7,477,830	(1,549,170)
Other sources	94,589	94,589	360,211	265,622
Total revenues	<u>24,449,603</u>	<u>27,659,215</u>	<u>27,152,846</u>	<u>(506,369)</u>
Revenues per GAAP basis			<u>27,152,846</u>	
EXPENDITURES				
Instruction and general:				
Instruction	4,631,574	5,126,498	4,906,936	219,562
Academic support	4,091,018	4,074,610	3,761,734	312,876
Institutional support	2,357,002	2,633,896	2,507,628	126,268
Operation and maintenance of plant	2,505,848	2,470,985	2,342,725	128,260
Student services	2,739,161	2,748,625	2,682,348	66,277
Public service	1,077,879	1,008,080	947,535	60,545
Capital outlay	7,000,000	9,752,000	8,437,768	1,314,232
Renewals and replacements	125,000	130,000	124,102	5,898
Total instruction and general expenditures	<u>24,527,482</u>	<u>27,944,694</u>	<u>25,710,776</u>	<u>2,233,918</u>
TRANSFERS				
Transfers in	1,100,000	1,100,000	2,975,000	(1,875,000)
Transfers out	(1,100,000)	(2,975,000)	(2,975,000)	-
Total transfers	<u>-</u>	<u>(1,875,000)</u>	<u>-</u>	<u>(1,875,000)</u>
Changes in net position	<u>(77,879)</u>	<u>(2,160,479)</u>	<u>1,442,070</u>	<u>(147,451)</u>
Ending fund balance	<u>\$ 17,785,701</u>	<u>\$ 8,382,148</u>	<u>\$ (7,180,101)</u>	<u>\$ (19,312,249)</u>
Changes in net position (budgetary basis)			\$ 1,442,070	
Capital outlay - construction in progress			7,794,344	
Capital outlay - equipment, vehicles, etc.			179,759	
Depreciation			<u>(1,772,738)</u>	
Change in net position - GAAP basis			<u>\$ 7,643,435</u>	

State of New Mexico
New Mexico School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON
UNRESTRICTED NON - INSTRUCTION AND GENERAL**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 15,134,219	\$ 6,865,735	\$ 6,907,175	\$ 41,440
REVENUES				
PSFA and severance tax bond proceeds	7,000,000	9,027,000	7,477,830	(1,549,170)
Interest income	-	-	1,696	1,696
Government grants and contracts	25,000	25,000	-	(25,000)
Sales and services	-	-	81,987	81,987
Other sources	-	-	143,085	143,085
Total revenues	<u>7,025,000</u>	<u>9,052,000</u>	<u>7,704,598</u>	<u>(1,347,402)</u>
EXPENDITURES				
Instruction and general:				
Public service	1,077,879	1,008,080	941,845	66,235
Capital outlay	7,000,000	9,752,000	8,437,768	1,314,232
Renewals and replacements	125,000	130,000	124,102	5,898
Total instruction and general expenditures	<u>8,202,879</u>	<u>10,890,080</u>	<u>9,503,715</u>	<u>1,386,365</u>
TRANSFERS				
Transfers in	1,100,000	1,100,000	2,975,000	(1,875,000)
Transfers out	-	-	-	-
Total transfers	<u>1,100,000</u>	<u>1,100,000</u>	<u>2,975,000</u>	<u>(1,875,000)</u>
Changes in net position (budgetary basis)	<u>(77,879)</u>	<u>(738,080)</u>	<u>1,175,883</u>	<u>(1,836,037)</u>
Ending fund balance	<u>\$ 15,056,340</u>	<u>\$ 6,127,655</u>	<u>\$ 8,083,058</u>	<u>\$ (1,794,597)</u>
Changes in net position (budgetary basis)			\$ 1,175,883	
Capital outlay - construction in progress			7,794,344	
Capital outlay - equipment, vehicles, etc.			179,759	
Depreciation			<u>(1,772,738)</u>	
Changes in net position - GAAP basis			<u>\$ 7,377,248</u>	

State of New Mexico
New Mexico School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON
UNRESTRICTED CURRENT FUNDS - INSTRUCTION AND GENERAL**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 2,673,320	\$ 3,438,630	\$ (15,835,654)	\$ (19,274,284)
REVENUES				
State general fund appropriations	4,290,900	4,265,200	4,290,905	25,705
Land grant permanent funds	12,575,000	13,400,000	14,393,823	993,823
Other sources	94,589	94,589	133,443	38,854
Total revenues	<u>16,960,489</u>	<u>17,759,789</u>	<u>18,818,171</u>	<u>1,058,382</u>
EXPENDITURES				
Instruction and general:				
Academic support	4,091,018	4,074,610	3,761,734	312,876
Instruction	4,167,460	4,279,072	4,224,223	54,849
Institutional support	2,357,002	2,633,896	2,507,628	126,268
Operation and maintenance of plant	2,505,848	2,470,985	2,342,725	128,260
Student services	2,739,161	2,748,625	2,682,348	66,277
Total instruction and general expenditures	<u>15,860,489</u>	<u>16,207,188</u>	<u>15,518,658</u>	<u>688,530</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	(1,100,000)	(2,975,000)	(2,975,000)	-
Total transfers	<u>(1,100,000)</u>	<u>(2,975,000)</u>	<u>(2,975,000)</u>	<u>-</u>
Changes in net position (budgetary basis)	<u>-</u>	<u>(1,422,399)</u>	<u>324,513</u>	<u>1,746,912</u>
Ending fund balance	<u>\$ 2,673,320</u>	<u>\$ 2,016,231</u>	<u>\$ (15,511,141)</u>	<u>\$ (17,527,372)</u>

State of New Mexico
New Mexico School for the Deaf

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET COMPARISON
RESTRICTED CURRENT FUNDS - INSTRUCTION AND GENERAL**

For the year ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Beginning fund balance	\$ 56,041	\$ 238,262	\$ 306,308	\$ 68,046
REVENUES				
Federal revenue sources	260,000	847,426	450,897	(396,529)
Joint powers agreements	<u>204,114</u>	<u>-</u>	<u>179,180</u>	<u>179,180</u>
Total revenues	<u>464,114</u>	<u>847,426</u>	<u>630,077</u>	<u>(217,349)</u>
EXPENDITURES				
Instruction and general:				
Instruction	464,114	847,426	682,713	164,713
Public service	<u>-</u>	<u>-</u>	<u>5,690</u>	<u>(5,690)</u>
Total instruction and general expenditures	<u>464,114</u>	<u>847,426</u>	<u>688,403</u>	<u>159,023</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position (budgetary basis)	<u>-</u>	<u>-</u>	<u>(58,326)</u>	<u>(58,326)</u>
Ending fund balance	<u>\$ 56,041</u>	<u>\$ 238,262</u>	<u>\$ 247,982</u>	<u>\$ 9,720</u>
Changes in net position (budgetary basis)			\$ (58,326)	
Capital outlay - equipment, vehicles, etc.			<u>-</u>	
Changes in net position - GAAP basis			<u>\$ (58,326)</u>	

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF RESTRICTED AND UNRESTRICTED CASH AND INVESTMENTS

June 30, 2016

	First National Bank of Santa Fe	State Treasurer's Office	Total
	<u> </u>	<u> </u>	<u> </u>
RESTRICTED AND UNRESTRICTED CASH			
Operational checking	\$ 6,363,605	\$ -	\$ 6,363,605
Less outstanding checks	(1,485,455)	-	(1,485,455)
Plus petty cash	1,450	-	1,450
	<u> </u>	<u> </u>	<u> </u>
Total restricted and unrestricted cash, net of overdrafts	<u>\$ 4,879,600</u>	<u>\$ -</u>	<u>\$ 4,879,600</u>
INVESTMENTS			
Certificate of deposits	\$ 339,364	\$ -	\$ 339,364
Local government investment pool	-	6,053,071	6,053,071
	<u> </u>	<u> </u>	<u> </u>
Total investments	<u>\$ 339,364</u>	<u>\$ 6,053,071</u>	<u>\$ 6,392,435</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS

June 30, 2016

	<u>First National Bank of Santa Fe</u>
Total bank balance - demand deposits	\$ 6,363,605
Less FDIC coverage	<u>(250,000)</u>
Uninsured balance of demand deposits	6,113,605
Total bank balance - time and savings deposits	339,364
Less FDIC coverage	<u>-</u>
Uninsured balance of time and savings deposits	<u>339,364</u>
Total uninsured bank balance	<u>6,452,969</u>
Collateralization requirement (102%)	6,582,028
Pledged securities (fair value):	
Government National Mortgage Association II	
CUSIP# 3128MMPU1 FHLMC - Pool#: G18434	622,059
CUSIP# 3136A83J7 FNMA SERIES 201 2-113	2,838,127
CUSIP# 882723PY9 TEXAS ST	2,679,128
CUSIP# 3128P7TTO FHLMC - Pool#: C91462	1,161,128
Deduct non-qualifying security CUSIP# 882723PY9 TEXAS ST	<u>(2,679,128)</u>
	4,621,314
Amount under collateral requirement	<u>\$ (1,960,714)</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF APPROPRIATIONS

June 30, 2016

Description	Authority	Appropriation Period	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Prior Year Reversion Amount	Current Year Reversion Amount	Unencumbered Balance
GENERAL FUND								
General Operation	Laws 2015 House Bill 2 Chapter 101 Section 4	2016	\$ 4,290,905	\$ -	\$ 4,290,905	\$ -	\$ -	\$ -
	Total appropriations		<u>\$ 4,290,905</u>	<u>\$ -</u>	<u>\$ 4,290,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS

June 30, 2016

- 1) Participant: Albuquerque Public Schools (APS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$75,680
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: APS & NMSD
- 2) Participant: Las Cruces Public Schools (LCPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$14,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: LCPS & NMSD
- 3) Participant: Rio Rancho Public Schools (RRPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$7,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: RRPS & NMSD
- 4) Participant: Santa Fe Public Schools (SFPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$45,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: SFPS & NMSD

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS - CONTINUED

June 30, 2016

- 5) Participant: Farmington Public Schools (FPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$7,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: FPS & NMSD

- 6) Participant: Aztec Public Schools (APS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$-0-
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: APS & NMSD

- 7) Participant: Gadsen Public Schools (GPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$7,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: GPS & NMSD

- 8) Participant: Central Consolidated Schools (CPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$15,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: CPS & NMSD

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF JOINT POWERS AGREEMENTS- CONTINUED

June 30, 2016

- 9) Participant: Las Vegas Public Schools (LVPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$7,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: LVPS & NMSD
- 10) Participant: Taos Public Schools (TPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$-0-
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: TPS & NMSD
- 11) Participant: Department of Health (DOH)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/15-6/30/16
Total estimated amount of project: \$25,000
Amount agency contributed in the fiscal year: \$12,990
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: DOH & NMSD

State of New Mexico
 New Mexico School for the Deaf
 SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT) (unaudited)
 For the Year Ended June 30, 2016

Prepared by Agency Staff Name: DAVID PADILLA

Title: SR. ACCOUNT TECHNICIAN

Date: 10/27/2016

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
2015-001	Construction	Bradbury Stamm	\$ 8,853,788.69		Bradbury Stamm 7110 2nd Street NW, Albuquerque NM 87107 AUI Inc. 7420 Reading Ave. SE Albuquerque, NM 87105 Pavilion Construction LLC 7820 Pan American Freeway East NE Suite 4 Albuquerque, NM 87109	Y	N/A	CONSTRUCTION OF DILLON HALL AND OTHER PROJECTS AT NMSD

State of New Mexico
New Mexico School for the Deaf

SCHEDULE OF SEVERANCE TAX BONDS

June 30, 2016

<u>Chapter</u>	<u>Laws</u>	<u>Term End</u>	<u>Type of Bond</u>	<u>Bonds Appropriated</u>	<u>Bonds Sold to Date</u>	<u>Bonds Unsold</u>
226	2013	2017	Severance Tax	\$ 6,300,000	\$ 6,300,000	\$ -
226	2013	2017	Severance Tax	1,000,000	1,000,000	-
3	2015	2019	Severance Tax	130,000	130,000	-
				<u>\$ 7,430,000</u>	<u>\$ 7,430,000</u>	<u>\$ -</u>

SCHEDULE 10

<u>Amount Available</u>	<u>Expenditures Prior Years</u>	<u>Expenditures Current Year</u>	<u>Total Expenditures</u>	<u>Amount Remaining</u>	<u>Reversions Current Year</u>
\$ 6,300,000	\$ -	\$ 3,393,881	\$ 3,393,881	\$ 2,906,119	\$ -
1,000,000	-	-	-	1,000,000	-
130,000	-	46,887	46,887	83,113	-
<u>\$ 7,430,000</u>	<u>\$ -</u>	<u>\$ 3,440,768</u>	<u>\$ 3,440,768</u>	<u>\$ 3,989,232</u>	<u>\$ -</u>

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

The Board of Regents
State of New Mexico – New Mexico School for the Deaf
Santa Fe, New Mexico
And
Mr. Timothy Keller
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the New Mexico School for the Deaf (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents and have issued our report thereon dated November 14, 2016. We have also audited the financial statements of the budgetary comparisons for the unrestricted and restricted – all operations, unrestricted non-instruction and general, unrestricted current funds – instruction and general, and restricted current funds – instruction and general funds presented as supplementary information, as defined by the Government Accounting Standards Board, in accompanying combining and individual fund financial statements as of and for the year ended June 30, 2016, as listed in the table of contents.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 2.2.2 NMAC which are described in the accompanying schedule of findings and responses as items 2015-001 and 2016-001.

The School's Responses to Finding

The School's responses to the finding identified in our audit are described in the accompanying schedule of findings and responses. The School's responses were 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 School's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish above the text.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2016

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements: No

FINANCIAL STATEMENT FINDINGS

None

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

2015-001 Under-Collateralized Deposits – Modified and Repeated

2016-001 Construction in Progress Schedules from PSFA Information – (Deficiency in Internal Control)

PRIOR YEAR FINDINGS

2010-001 (10-01) Budget Violations – Resolved

2015-001 Under-Collateralized Deposits – Modified and Repeated

2015-002 Chief Procurement Officer (Other Noncompliance) – Resolved

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2016

CURRENT YEAR FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER NONCOMPLIANCE

2015-001 UNDER-COLLATERALIZED DEPOSITS (OTHER NONCOMPLIANCE)

CONDITION

Bank account deposits for the School as public funds are required to be collateralized to a level required by the State Statutes. The combined checking account and certificates of deposit for the School was under-collateralized in comparison to the required level at June 30, 2015 (102%). For 2016, additional securities were assigned as collateral for the School's public deposits at the request of the School, however, the additional collateral did not qualify under the State Statutes. For 2016, the School's bank account deposits are still under-collateralized.

CRITERIA

6-10-17 NMSA 1978 requires deposits in public institutions to be collateralized to at least 50% of the deposit balance. 6-10-20 NMSA 1978 requires additional collateral from bank institutions above 50% if so designated by the State Treasurer. NMSA 6-10-16 specifies qualifying securities for deposits of public money.

EFFECTS

The Schools checking account and certificates of deposit were under-collateralized at June 30, 2016.

CAUSE

Additional securities were assigned to the School with the intent to meet the statute, but one significant security assigned was not in compliance with the statute.

RECOMMENDATION

We recommend that the additional collateral be secured as soon as practical and that a monitoring procedure is set up to ensure adequate collateral in the future.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

Meetings were held and additional collateral assigned in order to cure the finding from the prior year. Upon identification of the non-qualifying security, Representatives of First National Bank – Santa Fe, immediately instituted a swap procedure to assign an appropriate security to the School to providing sufficient collateral. The New Mexico Treasurer's website will continue to be monitored.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2016

CURRENT YEAR FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER NONCOMPLIANCE

**2016-001 CONSTRUCTION IN PROGRESS SCHEDULES FROM PSFA INFORMATION –
(Deficiency in Internal Control)**

CONDITION

The School has renovated several campus buildings in recent years. Funding has been with bond proceeds administered primarily by the Public School Facilities Authority (PSFA). It was necessary during the current audit to record all Construction in Progress transactions for PSFA administered activity during fiscal year 2016. The entries were prepared by the School's contractor with assistance from the external auditor. The year-end recording and reconciliation to PSFA records required additional time at the end of the audit and the adjustments amounts were significant.

CRITERIA

Committee of Sponsoring Organizations (COSO) framework for internal controls discusses reconciliation of account balances as a strong control procedure to achieve accounting objectives. Periodic reconciliations of material account balances can decrease the need for large year end reconciliations, year-end workload and possible unexpected accounting outcomes.

CAUSE

The School employs a contractor as part of its preparation procedures for the year-end audit. The contractor reconciles the construction in progress accounts for PSFA activity once a year. Further, PSFA activity on School construction projects is transacted by the PSFA and recorded by the PSFA continuously during the year and after the fact. Public websites detail the project information for the School when they are updated.

EFFECT

A concentrated project workload is necessary to record at one time the construction in progress adjustments needed for the year. Increased work load can lead to errors or to unexpected accounting outcomes upon completing of the reconciliations. Due to the lack of control over the availability of information from PSFA in all instances, some year-end reconciliations may still be necessary.

RECOMMENDATION

We recommend that construction in progress schedules be maintained on a periodic basis during the year to the greatest extent possible. This will increase available reconciled information and decrease needed procedures at year end.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2016

CURRENT YEAR FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER NONCOMPLIANCE

**2016-001 CONSTRUCTION IN PROGRESS SCHEDULES FROM PSFA INFORMATION –
(Deficiency in Internal Control) - CONTINUED**

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN

NMSD Finance will work with PSFA Finance to find an effective way in recording and reporting capital project expenditures on a monthly basis instead of during the time of the annual audit. E-builder will be used to monitor PSFA's share in recording expenditures. As has been in previous fiscal years when NMSD received funds from PSFA, NMSD Finance would wait until during the audit to update the year-to-date amount covered by PSFA. NMSD Finance and PSFA Finance do not pay their share of invoices during the same time. E-builder on PSFA's end is not updated until another later date after NMSD pays its share. Not updating NMSD's accounting system on PSFA's share of capital projects on a monthly basis will not give the accurate amount paid as only NMSD's part is recorded.

State of New Mexico
New Mexico School for the Deaf

EXIT CONFERENCE

For the year ended June 30, 2016

An exit conference was held at the New Mexico School for the Deaf campus on November 11, 2016, with the following individuals in attendance:

New Mexico School for the Deaf

Lynann Barbero
Mark Apodaca
Rosemary Gallegos

Board President
Director of Business and Finance
Superintendent

Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM
Brett Bauer, CPA

Audit Director
Audit Manager

Presentation: The accompanying financial statements are the responsibility of the School and are based on information from the School's financial records. Atkinson & Co., Ltd. prepared the financial statements with assistance provided by the School.

ATKINSON & CO. LTD
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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