



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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S
REPORT**

June 30, 2017

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**State of New Mexico
New Mexico School for the Deaf**

BOARD OF REGENTS

June 30, 2017

Ms. Lynann Barbero	President
Mr. Nathan Gomme	Vice-President
Mr. John Robertson	Secretary/Treasurer
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Dr. Jennifer Herbold	Director of Instruction



State of New Mexico
OFFICE OF THE STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

The Board of Regents
New Mexico School for the Deaf

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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements. 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 of and for the year ended June 30, 2017, as defined by the Government Accounting Standards Board.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017 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, 2017, 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 School. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 17 and pension statements on pages 44 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements and the budgetary comparisons. The accompanying schedules 5 through 8 required by Section 2.2.2 NMAC are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018 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.

Office of the State Auditor

Office of the State Auditor
Santa Fe, New Mexico
March 22, 2018

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

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 FY2017, total assets increased by 2.6% or \$1,606,782 over FY2016. Current assets, which include cash, cash equivalents, short-term investments, accounts receivable and inventories, decreased by 7.5% or \$775,061 while noncurrent assets, which includes restricted cash and cash equivalents and capital assets (buildings, equipment, and property) increased by 4.6% or \$2,381,843 from the previous fiscal year.

For liabilities, total liabilities increased by 24.4% or \$5,664,666. This was mostly due to the net pension liability increasing by 27.3% or \$6,011,893 from FY2016. Current liabilities (accounts payable, accrued compensated absences, and payroll taxes) decreased by 37.0% or \$360,169 from FY2016. Noncurrent liabilities, which includes accrued compensated absences and deposits from students, increased by only \$12,942 or 7.0% from FY2016.

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, 2017, net position decreased by 0.02% or \$76,742 from FY2016.

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Net Position – Continued

ASSETS

	2017	2016
Current assets	\$ 9,614,586	\$ 10,389,647
Non-current assets	53,992,170	51,610,327
Total assets	63,606,756	61,999,974

DEFERRED OUTFLOWS OF RESOURCES	6,003,392	2,385,732
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LIABILITIES

Current liabilities	614,387	974,556
Non-current liabilities	197,485	184,543
Net Pension liability	28,036,691	22,024,798
Total liabilities	28,848,563	23,183,897

DEFERRED INFLOWS OF RESOURCES	312,060	675,542
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NET POSITION

Net investment in capital assets	49,671,811	48,511,406
Restricted	4,628,278	3,368,261
Unrestricted	(13,850,564)	(11,353,400)
Total net position	\$ 40,449,525	\$ 40,526,267

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 in 2015, the school's net position and investment in capital assets had grown to \$52,896,401 and \$42,395,462 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.

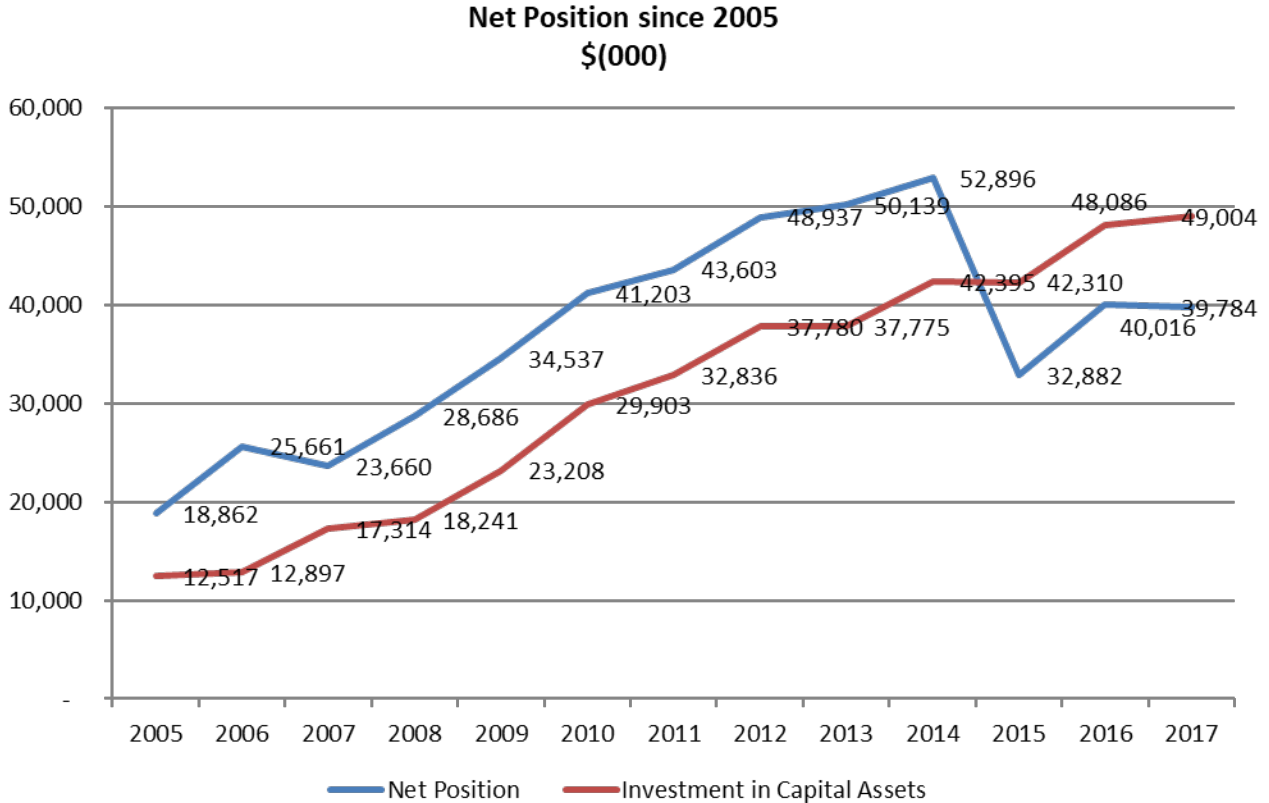
**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Net Position – Continued



Reported net position is before implementation of GASB 68 in 2015. GASB is reported in 2016 and 2017.

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 fourth 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 four 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, 2017

FINANCIAL HIGHLIGHTS – CONTINUED

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

Operating Revenues

Operating revenues for FY2017 was \$1,821,059, an increase of 88.2% from FY2016. While revenues from other operating revenues was more in FY2017 than FY2016, Federal grants and contracts revenue and joint powers agreements revenues were 13.1% and 20.5% more in FY2017 than FY2016, 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 Navajo Nation, IDEA-B, and Medicaid. As for the JPA, NMSD received 20.5% more in funds from public schools in FY2017 than in FY2016. Most of the funds came from the Albuquerque Public Schools (\$71,000) and Santa Fe Public Schools (\$67,500) followed by seven other public schools districts.

	<u>2017</u>	<u>2016</u>	<u>Variance</u>	<u>Percent</u>
OPERATING REVENUES				
Federal grants and contracts	\$ 634,572	\$ 561,143	\$ 73,429	13.1%
Other operating revenues	970,487	227,203	743,284	327.1%
Joint Powers Agreements	<u>216,000</u>	<u>179,180</u>	<u>36,820</u>	20.5%
Total operating revenues	1,821,059	967,526	853,533	88.2%
OPERATING EXPENSES				
Instruction	5,096,479	4,227,378	869,101	20.6%
Academic support	4,007,377	3,761,734	245,643	6.5%
Operation and maintenance of plant	2,967,413	2,930,492	36,921	1.3%
Student services	2,845,010	2,689,214	155,796	5.8%
Institutional support	2,533,662	2,507,628	26,034	1.0%
Depreciation	1,785,349	1,772,738	12,611	0.7%
Outside contracts and grants	<u>1,910,231</u>	<u>1,620,227</u>	<u>290,004</u>	17.9%
Total operating expenses	<u>21,145,521</u>	<u>19,509,411</u>	<u>1,636,110</u>	8.4%
Net operating loss	(19,324,462)	(18,541,885)	(782,577)	4.2%

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

FINANCIAL HIGHLIGHTS – CONTINUED

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

	<u>2017</u>	<u>2016</u>	<u>Variance</u>	<u>Percent</u>
NON-OPERATING REVENUES (EXPENSES)				
Land and permanent fund income	12,477,329	14,393,823	(1,916,494)	-13.3%
State appropriations	4,076,400	4,290,905	(214,505)	-5.0%
Gain on disposal of capital assets	33,678	17,038	16,640	97.7%
Investment income	21,105	5,723	15,382	268.8%
	<u>16,608,512</u>	<u>18,707,489</u>	<u>(2,098,977)</u>	-11.2%
Total non-operating revenues				
Change in net position before capital items	(2,715,950)	165,604	(2,881,554)	-1740.0%
CAPITAL ITEMS				
Bond proceeds appropriations	1,480,425	3,440,768	(1,960,343)	-57.0%
Awards proceeds from Public School Facility Administration	<u>1,158,783</u>	<u>4,037,063</u>	<u>(2,878,280)</u>	-66.3%
Changes in net position	<u>\$ (76,742)</u>	<u>\$ 7,643,435</u>	<u>\$ (7,720,177)</u>	-101.0%
NET POSITION				
Net position, beginning of year	\$ 40,526,267	\$ 32,882,832	\$ 7,643,435	23.2%
Net position, end of year	<u>\$ 40,449,525</u>	<u>\$ 40,526,267</u>	<u>\$ (76,742)</u>	-0.2%

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 FY2017, the school's operating expenses were \$21,145,521 and about 8.4% more than FY2016. Instruction and General covers academic support, instruction, student services, institutional support and operation and maintenance of the plant. During FY2017, \$11,948,866 covered costs associated to students (instruction, academic support, and student support) which was 11.9% more than FY2016. However, of the total Instruction and General costs for FY2017, 64.8% covered instruction, academic support and student support. The rest (35.2%) 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**

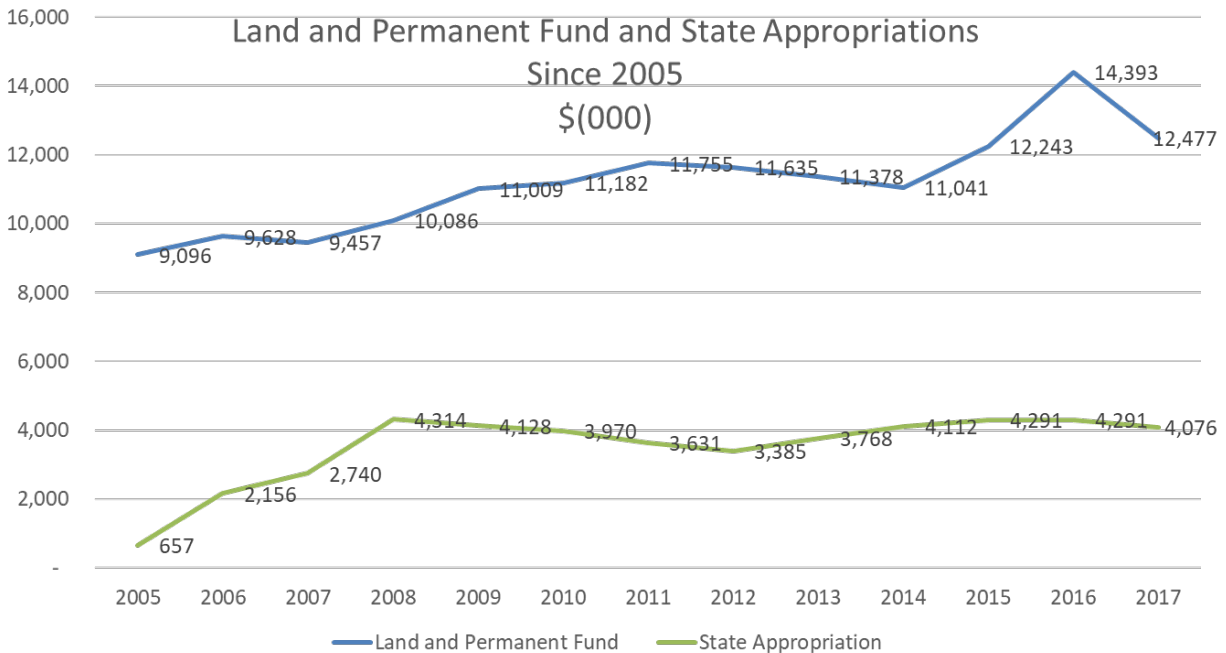
June 30, 2017

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 90% of NMSD’s total revenues (operating and non-operating). During FY2017, NMSD received \$12,477,329 from the state’s land and permanent funds and \$4,076,400 from state appropriations. Revenues from the land and permanent fund were 13.3% less than FY2016 while appropriations for FY2017 were 5% less than FY2016. 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 Sunflower Bank (which merged with First National Santa Fe and LGIP is managed by the New Mexico State Treasurer’s Office. The balance as of June 30, 2017 for NMSD’s CD and LGIP accounts was \$341,042 and \$6,082,565, respectively.

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

FINANCIAL HIGHLIGHTS – CONTINUED

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

Capital Items

During FY2017, NMSD was involved with new capital projects planning Delgado and Cartwright Halls and the final stage of Site Improvements Phase II. The funds were covered by the Public Schools Facility Authority (PSFA) and by severance tax bonds. Total costs were \$1,158,783.

Statement of Cash Flows

NMSD ended FY2017 with a cash and restricted cash equivalent balance of \$5,603,142. 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:

	2017	2016	Net Increase (Decrease)	Percent
CASH FLOWS FROM OPERATING ACTIVITIES				
Federal grants and contract revenues	\$ 820,138	\$ 793,632	\$ 26,506	3.3%
Payments to vendors and suppliers	(3,468,039)	(2,965,738)	(502,301)	16.9%
Payments to employees and for employee benefits	(14,188,818)	(13,934,611)	(254,207)	1.8%
Other revenues	1,048,013	163,329	884,684	541.7%
Net cash used in operating activities	<u>\$ (15,788,706)</u>	<u>\$ (15,943,388)</u>	<u>\$ 154,682</u>	-1.0%

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Cash Flows – Continued

During FY2017, net cash used in operating activities totaled \$15,788,706 which was \$154,682 or 1.0% less compared to FY2016. 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 decreased in FY2017 by \$2,001,595 or 10.8% from FY2016.

	2017	2016	Net Increase (Decrease)	Percent
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	\$ 4,076,400	\$ 4,290,905	\$ (214,505)	-5.0%
Land and permanent fund income	12,537,864	14,324,954	(1,787,090)	-12.5%
Net cash provided by noncapital financing activities	<u>\$ 16,614,264</u>	<u>\$ 18,615,859</u>	<u>\$ (2,001,595)</u>	-10.8%

Cash flows from capital related financing activities cover capital outlays which includes capital projects, vehicles, and technology. During FY2017, revenues from severance tax bond proceeds decreased by \$855,953 or 34% from FY2016. Because of the near completion of Phase II, purchases, construction and renovation of capital assets was \$1,786,971 compared to \$3,937,039 for FY2016.

	2017	2016	Net Increase (Decrease)	Percent
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Bond proceeds from Public Schools Facility Authority	\$ 1,661,344	\$ 2,517,297	\$ (855,953)	-34.0%
Purchases, construction, and/or renovation of capital assets	(1,786,971)	(3,937,039)	2,150,068	-54.6%
Net cash used in financing activities	<u>\$ (125,627)</u>	<u>\$ (1,419,742)</u>	<u>\$ 1,294,115</u>	-91.2%

The last category covers cash flows from investing activities. During FY2017, net cash increased by \$23,611. This category involves NMSD's investments in the Local Government Investment Pool which is managed by the New Mexico State Treasurer's Office and CD's held with First National Santa Fe.

	2017	2016	Net Increase (Decrease)	Percent
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	\$ 33,678	\$ 12,967	\$ 20,711	159.7%
Proceeds from sale of equipment	5,723	-	5,723	0.0%
Purchase of investments	(31,172)	(9,051)	(22,121)	244.4%
Net cash provided by investing activities	<u>\$ 8,229</u>	<u>\$ 3,916</u>	<u>\$ 4,313</u>	110.1%

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

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

FINANCIAL HIGHLIGHTS – CONTINUED

BUDGET COMPARISONS

Within this 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 FY2017. 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.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 15,683,211	\$ 8,083,058	\$ (7,600,153)	-48%
REVENUES				
PSFA and Bond proceeds	4,300,625	2,639,208	(1,661,417)	-39%
Interest income	-	3,834	3,834	0%
Government grants and contracts	20,000	20,161	161	1%
Sales and services	-	925,075	925,075	0%
Other sources	-	34,753	34,753	0%
Total revenues	4,320,625	3,623,031	(697,594)	-16%
EXPENDITURES				
Instruction and general:				
Public service	1,230,978	1,104,286	126,692	-10%
Capital outlay	5,382,839	3,440,776	1,942,063	36%
Renewals and replacements	125,000	57,279	67,721	-36%
Total instruction and general expenditures	6,738,817	4,602,341	2,136,476	32%
TRANSFERS				
Transfers in	1,051,300	1,200,000	148,700	14%
Transfers out	-	-	-	0%
Total transfers	1,051,300	1,200,000	148,700	14%
Changes in net position (budgetary basis)	(1,366,892)	220,690	1,587,582	
Ending fund balance	\$ 14,316,319	\$ 8,303,748	\$ (6,012,571)	-42%

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

BUDGET COMPARISONS – CONTINUED

During FY2017, \$1,200,000 was transferred from Unrestricted Instruction and General to cover Educational Consultation Training (ECT) salaries, benefits, and expenses. The total expenditures for ECT were \$1,104,286.

Unrestricted Current Funds – Instruction and General (Schedule 3)

This schedule covers NMSD's instructional operations and its support. For the revenue side, NMSD was final budgeted for \$16,567,655 and actuals were \$16,595,375. The budget for land and permanent fund was \$12,384,000, but actuals stood at \$12,477,329, which was favorable at \$93,329. However, actuals from state appropriations balanced. Actuals from other sources ended at \$41,646, which was \$65,654 less than what was budgeted for. On the expenditure side, the final budget was \$16,043,530 and actuals were \$14,778,765.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 4,223,077	\$ (15,511,141)	\$ (19,734,218)	-467%
REVENUES				
State appropriations	4,076,355	4,076,400	45	0%
Endowments and land permanent funds	12,384,000	12,477,329	93,329	1%
Other sources	107,300	41,646	(65,654)	-61%
Total revenues	16,567,655	16,595,375	27,720	0%
EXPENDITURES				
Instruction and general:				
Academic support	4,248,950	4,007,377	241,573	-6%
Instruction	3,842,705	2,994,780	847,925	-22%
Institutional support	2,641,825	2,533,662	108,163	-4%
Operation and maintenance of plant	2,432,850	2,397,935	34,915	-1%
Student services	2,877,200	2,845,010	32,190	-1%
Total instruction and general expenditures	16,043,530	14,778,764	1,264,766	-8%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	(1,051,300)	(1,200,000)	(148,700)	14%
Total transfers	(1,051,300)	(1,200,000)	(148,700)	14%
Changes in net position (budgetary basis)	(527,175)	616,611	1,143,786	
Ending fund balance	\$ 3,695,902	\$ (14,894,530)	\$ (18,590,432)	45%

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

BUDGET COMPARISONS – CONTINUED

Under the transfers section, \$1,200,000 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)

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 \$247,982 which was under the budget by \$68,534. Revenues from Joint Partnership Agreements with public schools earned the school \$216,000, which was more than the final budget by \$16,000.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 316,516	\$ 247,982	\$ (68,534)	
REVENUES				
Federal revenue sources	582,476	634,372	51,896	9%
Joint powers agreements	200,000	216,000	16,000	8%
Total revenues	782,476	850,372	67,896	9%
EXPENDITURES				
Instruction and general:				
Instruction	782,476	894,070	(111,594)	14%
Public service	-	-	-	0%
Total instruction and general expenditures	782,476	894,070	(111,594)	14%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	-	-	-	0%
Total transfers	-	-	-	0%
Changes in net position (budgetary basis)	-	(43,698)	(43,698)	
Ending fund balance	\$ 316,516	\$ 204,284	\$ (112,232)	-35%

**State of New Mexico
New Mexico School for the Deaf**

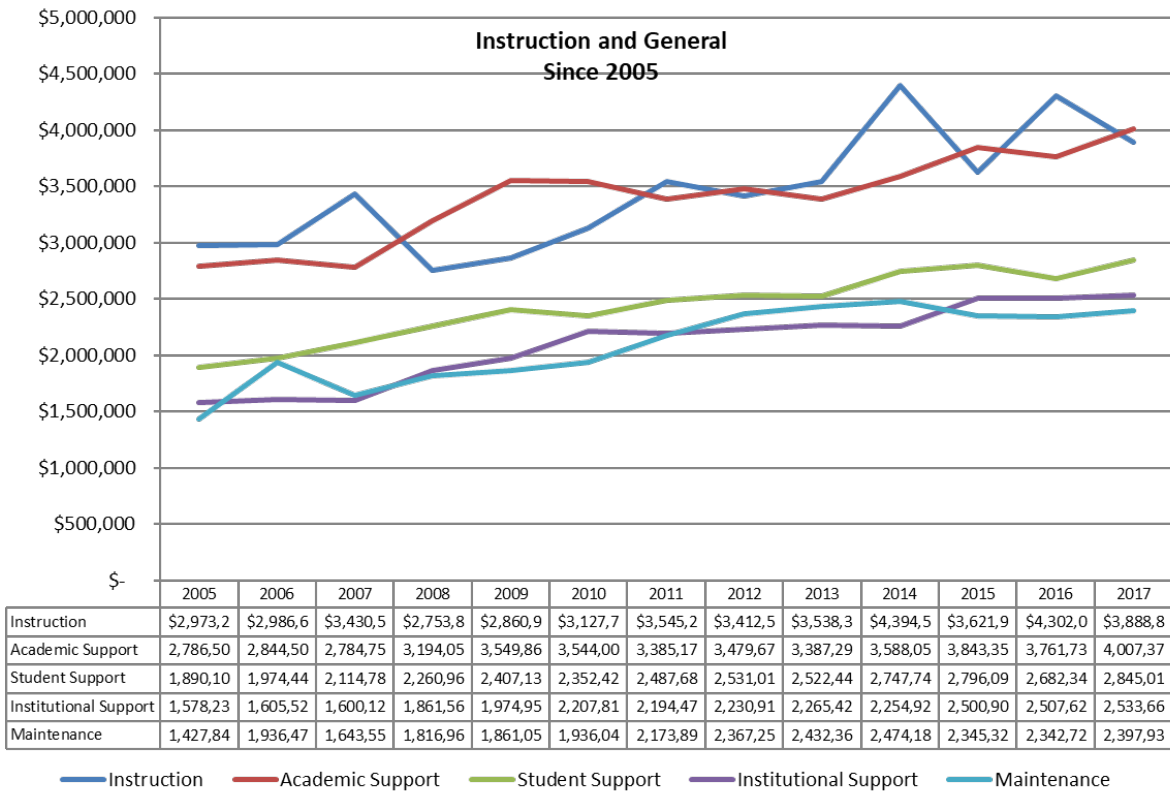
**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2017

BUDGET COMPARISONS – CONTINUED

The net position for Restricted Funds decreased by \$43,698. The ending fund balance is \$204,284. 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, 2017, the school’s net capital assets stood at \$49,671,811. This was a net increase of \$1,160,405 from 2016.

**State of New Mexico
New Mexico School for the Deaf**

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

June 30, 2017

CAPITAL ASSETS – CONTINUED

	2017	2016	(Decrease)	Percent
Buildings	\$ 46,701,811	\$ 37,483,064	\$ 9,218,747	24.6%
Land and improvements	1,623,400	1,623,400	-	0.0%
Construction in progress	429,247	8,593,892	(8,164,645)	-95.0%
Vehicles	489,407	383,793	105,614	27.5%
Artwork	209,550	209,550	-	0.0%
Equipment and furniture	131,776	145,524	(13,748)	-9.4%
Infrastructure	86,620	72,183	14,437	20.0%
Computer equipment	-	-	-	0.0%
Total capital assets, net	<u>\$ 49,671,811</u>	<u>\$ 48,511,406</u>	<u>\$ 1,160,405</u>	2.4%

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. NMSD just opened a preschool program in Gallup. With the increase in demand for services, funds from state appropriation and the land and permanent fund need to be stable or increased. 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, 2017

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,282,783
Certificates of deposit	341,042
Local Government Investment Pool	6,082,565
Accounts receivable, net of allowance for doubtful accounts of \$45,907	1,111,872
Severance tax bond proceeds receivable - due from DFA - Board of Finance (85300)	742,552
Prepaid Expense	9,748
Inventories	<u>44,024</u>
Total current assets	9,614,586
NONCURRENT ASSETS	
Restricted cash and cash equivalents	4,320,359
Capital assets, net	<u>49,671,811</u>
Total noncurrent assets	<u>53,992,170</u>
Total assets	<u>63,606,756</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	<u>6,003,392</u>
CURRENT LIABILITIES	
Accounts payable	\$ 262,215
Program advances	34,855
Accrued compensated absences - current portion	188,767
Payroll taxes and fringe benefits - accrued and withheld	<u>128,550</u>
Total current liabilities	614,387
NONCURRENT LIABILITIES	
Accrued compensated absences, less current portion	40,715
Deposits from students	156,770
Net Pension Liability	<u>28,036,691</u>
Total noncurrent liabilities	<u>197,485</u>
Total liabilities	811,872
DEFERRED INFLOWS OF RESOURCES	
Pension Related	<u>312,060</u>
NET POSITION	
Net investment in capital assets	49,671,811
Restricted - expendable for:	
Other programs	4,320,359
Grants and scholarships	285,895
Special events	22,024
Unrestricted (deficit)	<u>(13,850,564)</u>
Total net position	<u>\$ 40,449,525</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, 2017

OPERATING REVENUES	
Federal contracts and and other grant revenue	\$ 634,572
Other revenues	970,487
Joint Powers Agreements	<u>216,000</u>
Total operating revenues	1,821,059
OPERATING EXPENSES	
Instruction	5,096,479
Academic support	4,007,377
Operation and maintenance of plant	2,967,413
Student services	2,845,010
Institutional support	2,533,662
Depreciation	1,785,349
Outside contracts and grants	<u>1,910,231</u>
Total operating expenses	<u>21,145,521</u>
Net operating loss	(19,324,462)
NON-OPERATING REVENUES	
Land and permanent fund income	12,477,329
State general fund appropriations	4,076,400
Investment income	33,678
Gain on disposal of capital assets	<u>21,105</u>
Total non-operating revenues	<u>16,608,512</u>
Change in net position before capital items	(2,715,950)
CAPITAL ITEMS	
Severance tax bond proceeds	1,480,425
Bond proceeds from Public Schools Facility Authority	<u>1,158,783</u>
Change in net position	(76,742)
Net position, beginning of year	<u>40,526,267</u>
Net position, end of year	<u><u>\$ 40,449,525</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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Federal grants and contract revenues	\$ 820,138
Payments to vendors and suppliers	(3,468,039)
Payments to employees and for employee benefits	(14,188,818)
Other revenues	<u>1,048,013</u>
Net cash used in operating activities	(15,788,706)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	4,076,400
Land grant permanent fund income	<u>12,537,864</u>
Net cash provided by noncapital financing activities	16,614,264
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Severance tax bond proceeds	1,661,344
Purchases, construction, and/or renovation of capital assets	<u>(1,786,971)</u>
Net cash used in capital financing activities	(125,627)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	33,678
Proceeds from sale of equipment	21,105
Purchase of investments	<u>(31,172)</u>
Net cash provided by investing activities	<u>23,611</u>
NET INCREASE IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS	723,542
Cash and restricted cash and cash equivalents, beginning of year	<u>4,879,600</u>
Cash and restricted cash and cash equivalents, end of year	<u><u>\$ 5,603,142</u></u>

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

Net operating loss	\$ (19,324,462)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	1,785,349
Changes in assets and liabilities:	
Accounts receivable	77,526
Inventory	(895)
Prepaid Expenses	(9,748)
Accounts payable	(338,952)
Accrued liabilities and compensated absences and deposits	22,159
Program advances	(30,434)
Change in net pension liability	6,011,893
Change in deferred outflows of resources	(3,617,660)
Change in deferred inflows of resources	<u>(363,482)</u>
Net cash used in operating activities	<u><u>\$ (15,788,706)</u></u>

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

	<u>2017</u>
Capital assets acquired through payments made by Public Schools Facility Authority	\$ 1,158,783

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

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

The School's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the School are discussed below.

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

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation and Accounting - Continued

reporting the residual of all elements in a statement of financial position. See Note H1 for more information on the implementation of GASB 68.

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

The School follows Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurements and Application*, 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, 2017.

The School early adopted Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*, in fiscal year 2016 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 elected to early implement GASB 79 in fiscal year 2016 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

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation and Accounting - Continued

position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

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. 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

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Pensions - Continued

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.

8. Deferred Outflows and Inflows of Resources

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as revenue in future periods.

9. 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.

10. Other Accrued Liabilities

Accrued liabilities include pension benefits accrued and withheld, certain insurance, taxes, retirement amounts payable, and other compensation related withholdings.

11. 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 2017.

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, 2017.

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Net Position - Continued

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, 2017.

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.

12. 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.

13. 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.

14. Classification of Expenses

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

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Classification of Expenses - Continued

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.

15. 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 expense and pension expense is not budgeted. There is no restricted non instructional and general budget schedule applicable to the School.

16. 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 \$4,076,400 for fiscal year 2017, 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 2017.

17. 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

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

17. Land Grant Permanent Income – Continued

income which is distributed monthly to beneficiaries based on their allocated lands.

18. 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.

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, 2017, (book balances) were \$5,603,142. The School's investment in the LGIP and certificates of deposits combined book balances were \$6,423,607. Restricted and unrestricted cash net of overdrafts in the amount of \$6,929,083 are fully insured or collateralized with securities held by the bank's agent pledged to the School or the Federal Deposit Insurance Corporation (FDIC).

Depository Account	Bank Balance
Insured	\$ 250,000
Collateralized	6,679,083
Uninsured and uncollateralized	-
Total deposits	\$ 6,929,083

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, 2017, the School's deposits were fully insured or collateralized. See Schedule 6.

The remaining balance of \$6,082,565 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*.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

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

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:

As of June 30, 2017, the New Mexico LGIP AAAM Rated \$6,082,565 [58] day WAM (R); [106] day WAM (F).

Its investments are 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, 2017 were as follows:

Asset Description	Balance at 6/30/2016	Additions	Deletions	Reclassifications	Balance at 6/30/2017
Non-depreciable					
Construction in progress	\$ 8,593,892	\$ 2,718,655	\$ -	(10,883,300)	\$ 429,247
Land and improvements	1,623,400	-	-	-	1,623,400
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	56,879,721	-	-	10,883,300	67,763,021
Equipment and furniture	795,591	20,404	-	-	815,995
Computers	141,895	-	-	-	141,895
Automotive equipment	1,417,618	206,695	(158,822)	-	1,465,491
Infrastructure	127,382	-	-	-	127,382
Capital assets	69,789,049	2,945,754	(158,822)	-	72,575,981
Accumulated depreciation					
Buildings	(19,396,657)	(1,670,558)	-	6,005	(21,061,210)
Equipment and furniture	(650,067)	(34,152)	-	-	(684,219)
Computers	(141,895)	-	-	-	(141,895)
Automotive equipment	(1,033,825)	(101,081)	158,822	-	(976,084)
Infrastructure	(55,199)	(5,094)	-	19,531	(40,762)
Total accumulated depreciation	(21,277,643)	(1,810,885)	158,822	25,536	(22,904,170)
Total net capital assets	\$ 48,511,406	\$ 1,134,869	\$ -	25,536	\$ 49,671,811

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE D – CAPITAL ASSETS - CONTINUED

Depreciation expense was \$1,785,349 for the year ended June 30, 2017.

NOTE E – OPERATING LEASES

The School leases equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Expenditures under the terms of the operating leases totaled \$52,423 for the current fiscal year. The future minimum rental payments required under the operating leases at year-end were as follows:

Year ending June 30:			
2018		\$	46,466
2019			43,660
2020			22,762
2021			14,153
2022			13,781
	Total minimum payments required		140,822

NOTE F – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2017:

Land and permanent fund	\$	998,122
Federal funding sources		31,905
Other receivables		127,752
Total receivables		1,157,779
Allowance for doubtful accounts		(45,907)
Net amounts receivable	\$	1,111,872

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.

Due from other State Agencies

Amounts shown as “Severance tax bond proceeds receivable – due from DFA – Board of Finance (85300) represent expenditures to be reimbursed from severance tax bond proceeds. The amounts recorded are currently receivable or were received subsequent to the balance sheet date; therefore, no allowance for doubtful accounts was recorded.

SHARE Fund #	Fund	Description	Amount	Due From
N/A	N/A	Severance Tax Bond Proceeds	\$ 742,552	DFA - Board of Finance (85300)
		Total Due from Other State Agencies	\$ 742,552	

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE G – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017 are summarized as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017	Amount Due within One Year
Accrued sick leave	\$ 58,558	\$ 26,306	\$ 12,064	\$ 72,800	\$ 72,800
Accrued annual leave payable	155,008	152,182	150,508	156,682	115,967
 Total accrued compensated absences	 <u>\$ 213,566</u>	 <u>\$ 178,488</u>	 <u>\$ 162,572</u>	 <u>\$ 229,482</u>	 <u>\$ 188,767</u>

Current operations liquidate compensated absences liabilities.

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

The School offers the following retirement and benefit plans:

1. Educational Retirement Board (ERB)

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:

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

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS (CONTINUED)

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.

Section 2-11.23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements: the member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55; the member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits; or the member's age is 67 and has earned 5 or more years of service credit.

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.

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.

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS (CONTINUED)

1. Educational Retirement Board (ERB) – Continued

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

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.

Employee Contributions: Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 10.7% of their gross salary in fiscal year 2015 and thereafter.

Employer Contributions: The contribution requirements of plan members and the School are established in state statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The School contributed 13.9% of gross covered salary in fiscal year 2017. Contributions to the pension plan from the School were \$606,174.

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, 2016. 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. At June 30, 2017, the School reported a liability of \$11,037,890 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, 2016. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2016, the (School's) proportion was .15338 percent, which was an increase of .00385 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$1,289,793. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

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New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Board (ERB) – Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 47,886	\$ 104,984
Changes in assumptions	224,687	-
Net difference between projected and actual earnings on pension plan investments	658,870	-
Changes in proportion and differences between the School's contributions and proportionate share of contributions	423,302	94,250
The School's contributions subsequent to the measurement date	606,174	-
Total	\$ 1,960,919	\$ 199,234

\$606,174 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:

2018	\$ (418,778)
2019	(213,737)
2020	(362,324)
2021	(160,672)
2022	-
	\$ (1,155,511)

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, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016 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, 2016. Specifically, the liabilities measured as of June 30, 2016 incorporate the following assumptions:

**State of New Mexico
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Board (ERB) – Continued

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 they retire before age 55, and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

Actuarial Cost Method	Entry Age Normal
Inflation	3.00%
Salary Increases	3% inflation, plus 0.75% 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
Average of Expected Remaining Service Lives	3.77 years
Mortality	<p>Healthy males: RP-2000 Combined Mortality Table with White Collar Adjustment, generational mortality improvements with Scale BB.</p> <p>Healthy females: GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from table's base year of 2012.</p>

Rate of Return: The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. ERB's investment allocation policy was reviewed and amended by the Board of Trustees on August 26, 2016. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following schedule shows the current asset allocation policy adopted on August 26, 2016, as well as the prior allocation policy targets.

**State of New Mexico
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

1. Educational Retirement Board (ERB) – Continued

<u>Asset Class</u>	<u>After 8/26/2016</u>	<u>Prior to 8/26/2016</u>
Equities	33%	35%
Fixed Income	26%	28%
Alternatives	40%	36%
Cash	1%	1%
Total	<u>100%</u>	<u>100%</u>

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016. This single discount rate was based on 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.

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.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
NMSD's proportionate share of the net pension liability	\$ 14,619,429	\$ 11,037,890	\$ 8,066,224

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 year ended June 30, 2016, 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, 2017.

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)

**State of New Mexico
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

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.

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, 2016 available at www.nmpera.org.

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 FY16 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 www.nmpera.org. The PERA coverage options that apply to the School is the State General. Statutorily required contributions to the pension plan from the School were \$868,672 and employer paid member benefits that were "picked up" by the employer were \$0 for the year ended June 30, 2017.

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, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

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, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to 2016 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

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

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.

For PERA Fund Division State General, at June 30, 2017, the School reported a liability of \$16,998,800 for its proportionate share of the net pension liability. At June 30, 2015, the School's proportion was 0.51828 percent, which is a decrease of .03062 percent. For the year ended June 30, 2017, the School recognized PERA Fund Division State General pension expense of \$1,966,229. At June 30, 2017, 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:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ 697,043	\$ -
Changes in assumptions	686,093	112,826
Net difference between projected and actual earnings on pension plan investments	1,790,664	-
Difference between expected and actual experience	-	-
The School's contributions subsequent to the measurement date	868,672	-
Total	\$ 4,042,472	\$ 112,826

\$868,672 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:

2018	\$ 700,016
2019	700,016
2020	1,201,202
2021	459,741
2022	-
	\$ 3,060,975

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H– 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, 2015 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, 2016 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, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2016 actuarial valuation.

Actuarial valuation date	June 30, 2015
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	7.48% annual blended rate, net of investment expense
Payroll growth	2.75% for the first 10 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 10 years, 2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2015 (economic)

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:

<u>ALL FUNDS - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50%	1.79%
Credit Oriented Fixed Income	15.00%	5.77%
Real Assets	20.00%	7.35%
Total	<u>100.00%</u>	

**State of New Mexico
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

Discount rate: The discount rate used to measure the total pension liability was 7.48 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 7.48% 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 (6.48%) or one percentage point higher (8.48%) than the single discount rate.

	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
PERA Fund Division General State			
NMSD's proportionate share of the net pension liability	\$ 22,343,390	\$ 16,998,800	\$ 12,542,015

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at www.nmpera.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, 2017.

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.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – 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 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.

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.

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

5. Post Employment Benefits – State Retiree Health Care Plan – Continued

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). For employees that were members of an enhanced retirement plan, during the fiscal year ended June 30, 2017, 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, 2017, 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, 2017, 2016, and 2015 were \$194,281, \$187,875, and \$185,435, respectively, which equal the required contributions for each year.

NOTE I – 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 are funded by general obligation and/or severance tax bonds and administered through the Public Schools Facility Authority (PSFA). The School's Site Improvements Phase II (Project P13-008) was completed in FY 2017. These projects will be completed during various times starting in FY2017. The amount of the remaining project commitments are approximately \$5,756,664.

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 K – 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.

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE L– 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. See Schedule 8.

The following is a list of participating school districts:

Albuquerque Public Schools	Farmington Public Schools
Las Cruces Public Schools	Belen Consolidated District Schools
Rio Rancho Public Schools	Gadsden Public Schools
Santa Fe Public Schools	Central Consolidated Schools
Las Vegas Public 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.

NOTE M – 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 \$1,158,783 for 2017.

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 7.

**State of New Mexico
New Mexico School for the Deaf**

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE N– 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>2017</u>
General Fund Appropriations –	\$ <u>4,076,400</u>
Bond Proceed Appropriations –	\$ <u>1,480,425</u>

NOTE O– OTHER REQUIRED DISCLOSURES

Restricted current funds – instruction and general exceeded approved budgetary authority for the year ended June 30, 2017 by \$111,594.

NOTE P – NEW ACCOUNTING STANDARDS

GASB 75: In June 2015, GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement 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. This Statement is effective for fiscal years beginning after June 15, 2017 (fiscal year 2018). The School is still evaluating how this Statement will affect the June 30, 2018 financial statements.

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 fiscal year 2017 financial statements will contain a material liability for participation in RHCF.

GASB 87: In June 2017, GASB issued Statement No. 87, *Leases*. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The School is still evaluating how this Statement will affect future financial statements.

NOTE Q – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 26, 2018, 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, 2017. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**State of New Mexico
New Mexico School for the Deaf**

REQUIRED SUPPLEMENTARY INFORMATION - ERB

June 30, 2017

**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***

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
School's proportion of the net pension liability	\$ 8,705,797	\$ 9,685,456	\$ 11,037,890	-	-	-	-	-	-	-
School's proportionate share of the net pension liability	0.15258%	0.14953%	0.15338%	-	-	-	-	-	-	-
School's covered-employee payroll	\$ 4,205,601	\$ 4,082,648	\$ 4,360,963	-	-	-	-	-	-	-
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	207%	237%	263%	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	66.54%	63.97%	61.58%	-	-	-	-	-	-	-

*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***

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required contribution	\$ 590,835	\$ 608,891	\$ 606,174	-	-	-	-	-	-	-
Contributions in relation to the contractually required contribution	\$ 590,835	\$ 608,891	\$ 606,174	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	-	-	-	-	-	-	-
NMSD's covered-employee payroll	\$ 4,205,601	\$ 4,082,648	\$ 4,360,963	-	-	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	14.05%	14.91%	13.90%	-	-	-	-	-	-	-

*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 - ERB

June 30, 2017

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

**State of New Mexico
New Mexico School for the Deaf**

REQUIRED SUPPLEMENTARY INFORMATION - PERA

June 30, 2017

**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***

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
School's proportion of the net pension liability	\$ 9,697,851	\$ 12,319,370	\$ 16,998,800	-	-	-	-	-	-	-
School's proportionate share of the net pension liability	0.54000%	0.54989%	0.51828%	-	-	-	-	-	-	-
School's covered-employee payroll	\$ 4,996,304	\$ 4,823,758	\$ 5,112,838	-	-	-	-	-	-	-
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	194%	255%	332%	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	81.29%	76.99%	69.18%	-	-	-	-	-	-	-

* 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***

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required contribution	\$ 849,111	\$ 819,557	\$ 868,672	-	-	-	-	-	-	-
Contributions in relation to the contractually required contribution	\$ 849,111	\$ 819,557	\$ 868,672	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	-	-	-	-	-	-	-
NMSD's covered-employee payroll	\$ 4,996,304	\$ 4,823,758	\$ 5,112,838	-	-	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	16.99%	16.99%	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, 2017

Changes of benefit terms: The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA fiscal year 2016 audit report available at <http://s3.amazonaws.com/boardaudio/Final-Version-2016-PERA-GASB-68-Report.pdf>.

Changes of assumptions: The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/6-30-2016-PERA-Valuation-Report-FINAL.pdf and contains information regarding current assumptions used in Appendix B 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, 2017

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 10,716,842	\$ 20,222,804	\$ (7,180,101)	\$ (27,402,905)
REVENUES				
State general fund appropriations	4,290,900	4,076,355	4,076,400	45
Land grant permanent funds	12,728,878	12,384,000	12,477,329	93,329
Federal revenue sources	607,476	602,476	634,372	31,896
Joint Powers Agreements	200,000	200,000	216,000	16,000
PSFA and severance tax bond proceeds	625,000	4,300,625	2,639,208	(1,661,417)
Other sources	109,100	107,300	1,025,469	918,169
Total revenues	<u>18,561,354</u>	<u>21,670,756</u>	21,068,778	<u>(601,978)</u>
Revenues per GAAP basis			<u>21,068,779</u>	
EXPENDITURES				
Instruction and general:				
Instruction	4,871,357	4,625,181	3,888,850	736,331
Academic support	4,095,603	4,248,950	4,007,377	241,573
Institutional support	2,651,494	2,641,825	2,533,662	108,163
Operation and maintenance of plant	2,477,952	2,432,850	2,397,935	34,915
Student services	2,614,948	2,877,200	2,845,010	32,190
Public service	1,204,813	1,230,978	1,104,286	126,692
Capital outlay	625,000	5,382,839	3,440,776	1,942,063
Renewals and replacements	125,000	125,000	57,279	67,721
Total instruction and general expenditures	<u>18,666,167</u>	<u>23,564,823</u>	<u>20,275,175</u>	<u>3,289,648</u>
TRANSFERS				
Transfers in	1,200,000	1,051,300	1,200,000	148,700
Transfers out	(1,200,000)	(1,051,300)	(1,200,000)	(148,700)
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	<u>(104,813)</u>	<u>(1,894,067)</u>	<u>793,603</u>	<u>2,687,670</u>
Ending fund balance	<u>\$ 10,612,029</u>	<u>\$ 18,328,737</u>	<u>\$ (6,386,498)</u>	<u>\$ (24,715,235)</u>
Changes in net position (budgetary basis)			\$ 793,603	
Capital outlay - construction in progress			2,718,655	
Capital outlay - equipment, vehicles, etc.			227,099	
Depreciation			(1,785,349)	
Pension Expense			<u>(2,030,750)</u>	
Change in net position - GAAP basis			<u>\$ (76,742)</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, 2017

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 8,002,655	\$ 15,683,211	\$ 8,083,058	\$ (7,600,153)
REVENUES				
PSFA and severance tax bond proceeds	625,000	4,300,625	2,639,208	(1,661,417)
Interest income	-	-	3,834	3,834
Government grants and contracts	25,000	20,000	20,161	161
Sales and services	-	-	925,075	925,075
Other sources	-	-	34,753	34,753
Total revenues	<u>650,000</u>	<u>4,320,625</u>	<u>3,623,031</u>	<u>(697,594)</u>
EXPENDITURES				
Instruction and general:				
Public service	1,204,813	1,230,978	1,104,286	126,692
Capital outlay	625,000	5,382,839	3,440,776	1,942,063
Renewals and replacements	125,000	125,000	57,279	67,721
Total instruction and general expenditures	<u>1,954,813</u>	<u>6,738,817</u>	<u>4,602,341</u>	<u>2,136,476</u>
TRANSFERS				
Transfers in	1,200,000	1,051,300	1,200,000	148,700
Transfers out	-	-	-	-
Total transfers	<u>1,200,000</u>	<u>1,051,300</u>	<u>1,200,000</u>	<u>148,700</u>
Changes in net position (budgetary basis)	<u>(104,813)</u>	<u>(1,366,892)</u>	<u>220,690</u>	<u>1,587,582</u>
Ending fund balance	<u>\$ 7,897,842</u>	<u>\$ 14,316,319</u>	<u>\$ 8,303,748</u>	<u>\$ (6,012,571)</u>
Changes in net position (budgetary basis)			\$ 220,690	
Capital outlay - construction in progress			2,718,655	
Capital outlay - equipment, vehicles, etc.			227,099	
Depreciation			<u>(1,785,349)</u>	
Changes in net position - GAAP basis			<u>\$ 1,381,095</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, 2017

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 2,475,925	\$ 4,223,077	\$ (15,511,141)	\$ (19,734,218)
REVENUES				
State general fund appropriations	4,290,900	4,076,355	4,076,400	45
Land grant permanent funds	12,728,878	12,384,000	12,477,329	93,329
Other sources	109,100	107,300	41,646	(65,654)
Total revenues	<u>17,128,878</u>	<u>16,567,655</u>	<u>16,595,375</u>	<u>27,720</u>
EXPENDITURES				
Instruction and general:				
Academic support	4,095,603	4,248,950	4,007,377	241,573
Instruction	4,088,881	3,842,705	2,994,780	847,925
Institutional support	2,651,494	2,641,825	2,533,662	108,163
Operation and maintenance of plant	2,477,952	2,432,850	2,397,935	34,915
Student services	2,614,948	2,877,200	2,845,010	32,190
Total instruction and general expenditures	<u>15,928,878</u>	<u>16,043,530</u>	<u>14,778,764</u>	<u>1,264,766</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	(1,200,000)	(1,051,300)	(1,200,000)	(148,700)
Total transfers	<u>(1,200,000)</u>	<u>(1,051,300)</u>	<u>(1,200,000)</u>	<u>(148,700)</u>
Changes in net position (budgetary basis)	<u>-</u>	<u>(527,175)</u>	<u>616,611</u>	<u>1,143,786</u>
Ending fund balance	<u>\$ 2,475,925</u>	<u>\$ 3,695,902</u>	<u>\$ (14,894,530)</u>	<u>\$ (18,590,432)</u>
Changes in net position (budgetary basis)			\$ 616,611	
Pension Expense (ERB)			(680,256)	
Pension Expense (PERA)			<u>(1,350,494)</u>	
Changes in net position - GAAP basis			<u>\$ (1,414,139)</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, 2017

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 238,262	\$ 316,516	\$ 247,982	\$ (68,534)
REVENUES				
Federal revenue sources	582,476	582,476	634,372	51,896
Joint powers agreements	200,000	200,000	216,000	16,000
Total revenues	782,476	782,476	850,372	67,896
EXPENDITURES				
Instruction and general:				
Instruction	782,476	782,476	894,070	(111,594)
Public service	-	-	-	-
Total instruction and general expenditures	782,476	782,476	894,070	(111,594)
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total transfers	-	-	-	-
Changes in net position (budgetary basis)	-	-	(43,698)	(43,698)
Ending fund balance	\$ 238,262	\$ 316,516	\$ 204,284	\$ (112,232)
Changes in net position (budgetary basis)			\$ (43,698)	
Capital outlay - equipment, vehicles, etc.			-	
Changes in net position - GAAP basis			\$ (43,698)	

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF RESTRICTED AND UNRESTRICTED CASH AND INVESTMENTS

June 30, 2017

	First National Bank of Santa Fe	State Treasurer's Office	Total
RESTRICTED AND UNRESTRICTED CASH			
Operational checking	\$ 6,588,041	\$ -	\$ 6,588,041
Less outstanding checks	(986,849)	-	(986,849)
Plus petty cash	1,950	-	1,950
Total restricted and unrestricted cash, net of overdrafts	\$ 5,603,142	\$ -	\$ 5,603,142
INVESTMENTS			
Certificate of deposits	\$ 341,042	\$ -	\$ 341,042
Local government investment pool	-	6,082,565	6,082,565
Total investments	\$ 341,042	\$ 6,082,565	\$ 6,423,607

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS

June 30, 2017

	<u>First National Bank of Santa Fe</u>
Total bank balance - demand deposits	\$ 6,588,041
Less FDIC coverage	<u>(250,000)</u>
Uninsured balance of demand deposits	6,338,041
Total bank balance - time and savings deposits	341,042
Less FDIC coverage	<u>-</u>
Uninsured balance of time and savings deposits	<u>341,042</u>
Total uninsured bank balance	<u>6,679,083</u>
Collateralization requirement (102%)	6,812,665
Pledged securities (fair value):	
CUSIP# 011464HX5 ALAMOGORDO NM MUNI SCH DIST NO 1	721,868
CUSIP# 011464HY3 ALAMOGORDO NM MUNI SCH DIST NO 1	668,610
CUSIP# 3136AN6Y8 FNA SERIES 2015-M9 CLASS A1	4,371,443
CUSIP# 30293MAH7 FRESB SERIES 2015-SB6 CLASS	<u>2,741,979</u>
	8,503,900
Amount over collateral requirement	<u><u>\$ 1,691,235</u></u>

**State of New Mexico
New Mexico School for the Deaf**

MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL AND SEVERENCE TAX CAPITAL OUTLAY APPROPRIATIONS

June 30, 2017

<u>Project Description</u>	<u>Appr ID</u>	<u>Authority/Chapter</u>	<u>Laws</u>	<u>Expiration</u>	<u>Total Appropriation</u>	<u>Bonds Sold to Date</u>	<u>Bonds Unsold</u>	<u>Amount Available</u>	<u>Expenditures Prior Years</u>	<u>Expenditures Current Year</u>	<u>Art in Public Places</u>	<u>Total Expended</u>	<u>Remaining Amount</u>	<u>Reversions Current Year</u>
<u>General Obligation Revenue Bond</u>														
Delgado Hall Renovation	GOB17 A5132	Ch 82 Sec 10/C/8	2016	6/30/2021	\$ 2,000,000	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -	\$ -	\$ 20,000	\$ -	\$ 1,980,000	\$ -
<u>Severence Tax Bond Proceeds</u>														
NMSD Improvements and Infrastructure	SSTB13SB-13-1935	Ch 226 Sec. 52/1	2013	6/30/2017	\$ 6,300,000	\$ 6,300,000	\$ -	\$ 6,300,000	\$ 3,393,881	\$ 1,435,931		\$ 4,829,812	\$ -	\$ 1,470,188
NMSD Consolidation Museum, Library & Remodel Dillon	SSTB13SB 13-1936	Ch 226 Sec. 52/2	2013	6/30/2017	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -	\$ 834,215	\$ -	\$ 834,215	\$ -	\$ 165,785
Delgado Hall Renovation	STB15A 15-0225	Ch 3 Sec 10	2015	6/30/2019	\$ 130,000	\$ 130,000	\$ -	\$ 130,000	\$ 46,887	\$ 2,490	\$ -	\$ 49,377	\$ 80,623	\$ -
					<u>\$ 9,430,000</u>	<u>\$ 9,430,000</u>	<u>\$ -</u>	<u>\$ 9,430,000</u>	<u>\$ 3,440,768</u>	<u>\$ 2,272,636</u>	<u>\$ 20,000</u>	<u>\$ 5,713,404</u>	<u>\$ 2,060,623</u>	<u>\$ 1,635,973</u>

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF JOINT POWERS AGREEMENTS

June 30, 2017

- 1) Participant: Albuquerque Public Schools (APS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/16-6/30/17
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$71,000
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: 7/1/16-6/30/17
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$10,500
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: 7/1/16-6/30/17
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: RRPS & NMSD

- 4) Participant: Santa Fe Public Schools (SFPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/16-6/30/17
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$67,500
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, 2017

- 5) Participant: Farmington Public Schools (FPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: **7/1/16-6/30/17**
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: Gadsden Public Schools (GPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/16-6/30/17
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

- 7) Participant: Central Consolidated Schools (CPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/16-6/30/17
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$22,500
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: CPS & NMSD

- 8) Participant: Las Vegas Public Schools (LVPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/16-6/30/17
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

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF JOINT POWERS AGREEMENTS - CONTINUED

June 30, 2017

- 9) Participant: Belen Consolidated District Schools (BCDS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/16-6/30/17
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: BCDS & NMSD
- 10) Participant: Department of Health (DOH)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/16-6/30/17
Total estimated amount of project: \$25,000
Amount agency contributed in the fiscal year: \$1,290
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: DOH & NMSD



Wayne A. Johnson
State Auditor

C. Jack Emmons, CPA, CFE
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

**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
New Mexico School for the Deaf

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 or NMSD) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 26, 2018. 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 of and for the year ended June 30, 2017, as defined by the Government Accounting Standards Board.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned 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

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of the School's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, 2017-009 and 2017-010.

The School's Responses to Findings

The School's responses to the findings 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.



Office of the State Auditor
Santa Fe, New Mexico
March 22, 2018

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

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? Yes

Noncompliance material to financial statements: No

PRIOR YEAR FINDINGS

2015-001 Under-Collateralized Deposits (other noncompliance) – Resolved

2016-001 Construction in progress schedules from PSFA information (other noncompliance) – Resolved

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

CURRENT YEAR FINDINGS:

2017-001 ENTITY-LEVEL CONTROLS OVER FINANCIAL REPORTING (SIGNIFICANT DEFICIENCY)

CONDITION

During the audit process, the following adjustment was required outside of the normal audit adjustments:

- An adjustment of \$91,371 and a reclassifying entry of \$143,746 was recorded for building depreciation expense to agree to supporting documentation.
- The unadjusted trial balance overstated revenues and expenses by \$997,068 for the Dillon Hall Phase II capital project. An adjustment was recorded to correct the accounts.

CRITERIA

An internal control structure that exists and is functioning properly is required as part of the model The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework consists of five components that must be present in carrying out the achievement objectives of an organization. These components are known as the control environment, risk assessment, control activities, information and communication, and monitoring. These components should be addressed in entity-level controls related to financial reporting and transaction level processes. AU-C 265 defines a deficiency in internal control as 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.

EFFECT

Adjustments identified by auditors indicate an internal control deficiency in maintaining the general ledger and potentially the financial statements. The School may lack adequate internal controls necessary to prevent or detect intentional or unintentional misstatements of accounting information.

CAUSE

The School's personnel and internal control procedures were not effective in identifying and correcting errors to the general ledger that would have resulted in misstatements of the financial statements had they not been corrected by the auditor.

RECOMMENDATION

We recommend the School review processes to ensure that they allow for the Business Office to review accounting information and identify any adjustments necessary on a timely basis.

MANAGEMENT RESPONSE

The Director of Finance will reevaluate the business office's calculation of depreciation. This will help determine a more accurate figure to be recorded in the books on a monthly basis. The Director of Finance plans to have this corrected by June 30, 2018.

2017-002 REVIEW AND APPROVAL OF JOURNAL ENTRIES (SIGNIFICANT DEFICIENCY)

CONDITION

During our test work of internal controls for review and approval of journal entries we noted the following:

- Eight out of 25 journal entries tested related to payroll and benefits. The School does not currently have a review and approval process for human resource/payroll journal entries prior to posting.

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

**2017-002 REVIEW AND APPROVAL OF JOURNAL ENTRIES (SIGNIFICANT DEFICIENCY)
- CONTINUED**

CONDITION - Continued

- Four out of 25 journal entries tested, totaling \$3,572, related to internal transfers for department purchases of goods. The supporting documentation contained budget transfer request forms with documentation of appropriate approvals. However, the journal entry documentation did not have documentation of review or approval.
- Three out of 25 journal entries tested, totaling \$447,364, did not have documentation of the Director of Finance's approval.

CRITERIA

Sound internal control policies should include controls over the journal entry process. Journal entries should include, at a minimum, supporting documentation for the journal entry and documentation of review by an individual other than the person posing the entry.

EFFECT

Inaccurate journal entries may be posted and the School may be unable to detect misstatements whether due to error or fraud.

CAUSE

The School's current journal entry process only requires certain types of journal entries be reviewed and approved by the Director of Finance. The three journal entries tested that did not have documentation of the Director of Finance's approval appear to have been an oversight.

RECOMMENDATION

We recommend that the School implement a process to ensure that journal entries are reviewed and approved prior to being posted into the general ledger.

MANAGEMENT RESPONSE

Staff involved with preparing adjusting journal entries were informed that they must obtain approval by their respective management prior to processing. The Director of Student Life will approve Food Service adjusting journal entries. The Director of Human Resources will approve payroll and benefit entries. After they are approved, they will be forwarded to the Director of Finance for his approval. Adjusting entry transactions not involving payroll, benefits, and food services will be approved by the Director of Finance. All documents approved by the Director of Finance will be processed by the Accounting Technician for General Accounting. The Director of Finance plans to have this corrected by June 30, 2018.

2017-003 TIMELINESS OF DEPOSITS (OTHER NON-COMPLIANCE)

CONDITION

During our testwork of four activity fund deposits we noted the following:

- Admission fees totaling \$324 for volleyball games on 9/13/16, 9/20/16, and 9/27/16 were bundled into one deposit to the NMSD business office. The receipt from the business office was dated 10/5/16 and the deposit on the bank statement was dated 10/11/17.
- Admission fees totaling \$632 for basketball games on 12/6/16, 12/9/16, and 12/10/16 were bundled into one deposit to the NMSD business office. The receipt from the business office was dated 12/13/16 and the deposit on the bank statement was dated 12/15/17.

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-003 TIMELINESS OF DEPOSITS (OTHER NON-COMPLIANCE) - CONTINUED

CONDITION - Continued

- Admission fees totaling \$1,707 for basketball games on 1/26/17, 1/27/17, 1/28/17, 1/31/17, and 2/2/17 were bundled into one deposit to the NMSD business office. The receipt from the business office was dated 2/10/17 and the deposit on the bank statement was dated 2/17/17.
- Admission fees totaling \$170 for a November 2016 volleyball game was received by the business office on 1/11/17 deposit on the bank statement was dated 1/17/17. Additionally, the deposit slip completed by NMSD listed \$682.86 and the bank deposit totaled \$652.11, a difference of \$0.75.

During our testwork of 25 cash receipts we noted the following:

- 12 out of 25 receipts, totaling \$2,724, were not deposited by the next banking day.
- For 10 out of 25 receipts, totaling \$20,546, we were unable to obtain sufficient evidence that the checks were deposited by the next banking day. The checks did not contain a date stamp and the School's process is to make bank deposits on Tuesdays and Thursdays.

CRITERIA

6.20.2.14(C) NMAC states "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day. If the distance to the bank is considerable, or the cash collection is limited to small amounts and/or low volume and it is impractical to meet the twenty-four hour/one banking day requirement, the local board may request approval from the department for an alternative plan. The bank deposit slip shall have the numbers from applicable receipts entered on it or attached as a reference."

EFFECT

The School was not in compliance with regulations and the non-compliance could put the School at an increased risk for fraud, waste, or abuse.

CAUSE

The School currently uses an armored truck service to pick up their deposits, however the pick-up only happens twice a week (Tuesdays and Thursdays). Checks and cash will be held in a safe until the designated pick-up dates. Additionally, there is only one person at the School who knows how to receipt money, and if the employee is not in the office, other employees are instructed to put the cash or checks in the safe and they will be receipted when the employee returns.

RECOMMENDATION

We recommend that the School reevaluate their current deposit procedures. The current procedures do not allow for money received by the school to comply with the next banking day requirement. Additionally, we recommend the School cross-train other employees on cash receipting procedures so deposits are being made timely.

MANAGEMENT RESPONSE

NMSD Finance will develop a new policy and procedures on the handling of cash. The documents will be reviewed with the NMSD Administrative Cabinet before the policy is submitted to the board for their approval and will be in alignment with NMSA 1978 Section 6-5-2 and Government Accounting Standards. The Director of Finance plans to have this corrected by June 30, 2018.

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-004 PURCHASE REQUISITIONS AND PAYMENT AUTHORIZATION (OTHER NON-COMPLIANCE)

CONDITION

During our test work of 38 cash disbursements we identified the following:

- 20 out of 38 disbursements, totaling \$77,257, payment packets contained an approved purchase requisition but did not contain a purchase order.
- Four out of 38 disbursements, totaling \$43,383, contained purchase requisitions with documentation of two out of the required three authorized approvals.
- One out of 38 disbursements totaling \$13,744.77 was not paid within 30 days of the vendor submitting the invoice. The invoice was dated 9/13/16 and the check was dated 12/14/16.

CRITERIA

The School's Policy #330 Procurement Policies and Procedures Section 4.1 states that "no purchase will be made from any vendor without a purchase order."

The School's Policy #330 Procurement Policies and Procedures Section 3.1 requires that purchase requisitions be approved by the Department Director/Supervisor, Superintendent, and the Director of Business.

Section 13-1-158 NMSA 1978 states that payment shall be tendered to the contractor within thirty days of the date of certification of that the services, construction or items of tangible personal property have been received and meet specifications. The School's terms and conditions included in their purchase orders provided to vendors states "NMSD agrees to pay all vendors within 30 days of a properly submitted invoice. Late payment charges may be assessed against NMSD in the amount and under the conditions set forth in section 13-1-158 NMSA 1978."

EFFECT

NMSD's internal controls over cash disbursements and the ability of responsible parties to appropriately monitor compliance with policies and procedures may be compromised. The School's noncompliance with its policies and procedures and State statute may increase the risk of fraud, waste, or abuse.

CAUSE

It does not appear that employees were aware of the School's policies and procedures or State statute requirements.

RECOMMENDATION

We recommend that the School provide training to employees on procurement policies and procedures.

MANAGEMENT RESPONSE

Policy 330 (Procurement) is currently being reviewed and updated. The auditor appears to be unclear as to purchase requisitions being generated through the Jenzabar Accounting System and manual purchase requisitions. Purchase orders are generated through the Jenzabar Accounting system only. When an NMSD vendor does not accept Purchase Orders a manual purchase requisitions is generated. Purchases after the fact occur rarely and only in the case of an emergency.

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-004 PURCHASE REQUISITIONS AND PAYMENT AUTHORIZATION (OTHER NON-COMPLIANCE) – CONTINUED

MANAGEMENT RESPONSE - Continued

NMSD Finance does provide training to staff on the procurement process during its annual orientation and with individual departments as needed. In addition, all Department Directors are versed in the Policy 330, have regular communication with the Director of Finance regarding purchasing, monitor and review all purchase requests which are then reviewed by the Director of Finance and finally approved by the Superintendent. The process for procurement has a system of checks and balances though may need updating to align with NMSD's policies and procedures. To supplement current training the Finance Department will develop on- line training including vlogs in ASL. The Director of Finance plans to have this corrected by June 30, 2018.

2017-005 TRAVEL AND PER DIEM (OTHER NON-COMPLIANCE)

CONDITION

During our review of eight travel and per diem reimbursements we noted the following:

- One mileage reimbursement for student transportation was reimbursed at .41 cents per mile but the published mileage reimbursement by the Department of Finance and Administration (“DFA”) for the period was .46 cents per mile. In addition, the mileage reported was below the mileage calculated using Rand McNally data, resulting in a potential underpayment of \$110.50.
- Two mileage reimbursements totaling \$438.74 did not include odometer readings, a log of mileage or Rand McNally data.
- One reimbursement request did not include itemized receipts for meals, totaling \$59.51, and amounts appeared to be erroneously reimbursed, totaling \$4.44.
- One travel reimbursement request, totaling \$132.73, listed the purpose of the overnight trip was to attend a holiday party in Las Cruces.

CRITERIA

The School's Policy #349 NMSD Student Transportation Service allows for feeder mileage rates that are established by the Mileage and Per Diem Act of the State of New Mexico. DFA mileage reimbursement rate table lists the rate of reimbursement for mileage as .46 for the period January 1, 2016 through December 31, 2016. In addition, the Mileage and Per Diem Act Section 10-8-1 NMSA 1978 requires the Rand McNally data for mileage reimbursements. The School's Policy #345 Travel and Per Diem requires appropriate receipts to reimburse the actual meal expense. The School's Policy # 345 Travel & Per Diem allows reimbursement for a job related travel.

EFFECT

The School was not in compliance with regulations and policies. This non-compliance may increase the School's risk for fraud, waste, or abuse.

CAUSE

The School appears to have decentralized review and approval of reimbursements and a policy that is inconsistent with the Mile and Per Diem Act.

RECOMMENDATION

We recommend that the School review their Travel & Per Diem Policy and update as necessary to ensure compliance with State statute. Additionally, the School should develop procedures and provide training to ensure consistent application of reimbursement policies and State statutes.

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-005 TRAVEL AND PER DIEM (OTHER NON-COMPLIANCE) - Continued

MANAGEMENT RESPONSE

According to the DFA's Regulations Governing the Per Diem and Mileage Act, the mileage reimbursement rate for 2017 was 43 cents per mile. The Act only applies to state officers or employees (not parents). For non-NMSD staff, parents earn feeder mileage of 41 cents per mile, which is determined by the NMSD administration. Policy 349 Section 6 covers Feeder Mileage. The policy will be updated to cover how the rate is determined. NMSD will review Policy 349 in its entirety with state statute and will provide training to staff on descriptions for purposes of travel.

The Holiday Party listed in the example above is the annual Las Cruces family and student holiday gathering at the NMSD preschool. The Director of Finance plans to have this corrected by June 30, 2018.

2017-006 EMPLOYMENT REQUIREMENTS (OTHER NON-COMPLIANCE)

CONDITION

During our payroll compliance testwork we noted the following:

- One personnel file, out of 25 employees tested, did not contain documentation of the license required for an educational assistant (EA).
- Three personnel files, out of 25 employees tested, did not contain documentation that employment background checks were performed.

CRITERIA

Section 22-10A-3 NMSA 1978 requires that any person teaching, supervising an instructional program or providing instructional support services in a public school or state agency shall hold a valid license or certificate from the department authorizing the person to perform that function. The School's Policy #255 Professional Certification and Licensure requires new employees to provide proof of licensure within ninety days from their hire date.

The School's Policy #206 Background Check Policy requires new employees to undergo an FBI background check.

EFFECT

NMSD was not in compliance with State statute and the School's internal policies. This non-compliance may increase the School's risk for fraud, waste, or abuse.

CAUSE

The School may have not placed the results of background checks in employee files. The cause for the educational assistant to lack a license as required by the Public Education Department is unknown.

RECOMMENDATION

We recommend that the School review their processes and update as necessary to ensure compliance with State statute and school policies. The school did perform background checks for the three employees listed above during the fiscal year 2017 audit.

MANAGEMENT RESPONSE

NMSD Human Resources will correct the few background check findings and one EA licensure finding by this audit. It will review and create additional processes to ensure full compliance. The Director of Finance plans to have this corrected by June 30, 2018.

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-007 PROCUREMENT POLICIES AND PROCEDURES (OTHER NON-COMPLIANCE)

CONDITION

Our audit included a review of ten contracts for compliance with the School’s procurement policies and procedures and the State Procurement Code. We noted the following:

- One contract for \$5,950 did not have documentation that three written quotes were obtained prior to the performance of services.

CRITERIA

Per the School’s “Employee Policy Manual”, Policy #330 Procurement Policies and Procedures, Section 8.1, it states “for purchases valued from \$5,001 to \$20,000, the department must obtain at least three written quotes by contracting vendors.”

EFFECT

The School does not appear to be complying with its policies and procedures which may increase the risk of fraud, waste, or abuse.

CAUSE

It does not appear that employees were aware of the School’s policies and procedures for this type of procurement.

RECOMMENDATION

We recommend the School provide training to employees on current procurement policies and procedures or revise the procurement policies and procedures to align with State Procurement Code requirements.

MANAGEMENT RESPONSE

NMSD’s Community Relations Department has been using Quario Design since 2013. As was mentioned in 2017-002, NMSD administration will be reviewing Policy 330. It is most likely that 8.1 under Policy 330 will apply to new vendors instead of a recurring vendor needing to submit a bid every fiscal year. The Director of Finance plans to have this corrected by June 30, 2018.

2017-008 EXPENDITURES IN EXCESS OF BUDGET (OTHER NON-COMPLIANCE)

CONDITION

We noted that the School’s actual expenditures exceeded the approved budget in the following category and amount:

- Restricted Current Funds – Instruction \$111,594

CRITERIA

Per 5.3.4.10 NMAC, total expenditures may not exceed amounts shown in the approved budgets at the level of budgetary control. Adequate internal controls to minimize budget overspending should ensure that budgets are not exceeded by any amount.

EFFECT

Continued spending in excess of the budget could result in a shortfall of cash, a reduction in reserves and a deterioration of the School’s overall financial health.

**State of New Mexico
New Mexico School for the Deaf**

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-008 EXPENDITURES IN EXCESS OF BUDGET (OTHER NON-COMPLIANCE) - CONTINUED

CAUSE

Expenditures were approved for payment when budgeted funds were not available. Budget adjustment requests were not completed to cover the excess expenditures.

RECOMMENDATION

We recommend the budget controls and procedures at the School be strengthened to ensure that budgeted amounts are not overspent. The Director of Finance plans to have this corrected by June 30, 2018.

MANAGEMENT RESPONSE

Actuals were over the budget for Joint Partnership Agreements (JPA) and Medicaid. JPA reimburses NMSD twice a year and it is unknown what the final payment will be in June. JPA's budget was for \$200,000 but actuals in revenues and expenses were \$216,000. NMSD did not expedite more than what was reimbursed. The balance was zero. Medicaid, on the other hand, is a *federal reimbursement program* and NMSD bills Medicaid as costs are incurred. During FY2017, NMSD's costs totaled \$338,188 (Fund 82) and was reimbursed for \$324,384. However, the fund had a carryover balance of \$226,759. The fund balance as of June 30, 2017 was \$212,955.50. The Director of Finance will work with the Director of Early Intervention and Involvement on the FY18 budget to ensure actuals do not exceed the budget. The Director of Finance plans to have this corrected by June 30, 2018.

2017-009 LATE FILING OF AUDIT REPORT (OTHER NON-COMPLIANCE)

CONDITION

The School's audit report for fiscal year 2017 was not submitted to the OSA by November 1, 2017.

CRITERIA

Section 2.2.2.9(A)(1) NMAC requires that audit reports of higher education agencies with a June 30 fiscal year-end to be submitted by November 1.

EFFECT

Non-compliance with Section 2.2.2.9(A)(1) NMAC.

CAUSE

The OSA accepts responsibility for the late audit report of the school. There were unexpected staff difficulties at OSA that caused a delay in completing the audit.

RECOMMENDATION

We recommend that the school continue to cooperate with auditors to complete audits timely. Future audits should be submitted timely with the cooperation of the school.

MANAGEMENT RESPONSE

NMSD Finance staff fully cooperated with the auditors. Staff had all materials and documents ready for OSA's review in August 2017. Perhaps there was some inefficiency on the auditor's part due to conducting two audits at the same time. Each week the auditors would work with NMSD for a couple of days and then another agency, which had an engagement with OSA, for the next couple of days. It will be more effective if NMSD was audited fully and completely before OSA moved on to another agency. NMSD Finance understands that the auditor's sudden retirement during the middle of the audit

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SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-009 LATE FILING OF AUDIT REPORT (OTHER NON-COMPLIANCE) - CONTINUED

MANAGEMENT RESPONSE - Continued

contributed to the delay in completing the audit. Because of changes in OSA's auditors, NMSD Finance had to resubmit such documents. This really utilized additional time for NMSD Finance's staff. The delay in completing the audit contributed in the delay of NMSD's submitting other reports to other agencies such as the NM Higher Education Department and NM Public Schools Department as well in the preparation of financial reports to the school's Board of Regents. NMSD Finance believes that the next audit will be more efficient and effective. The Director of Finance plans to have this corrected by June 30, 2018.

2017-010 NON-COMPLIANCE WITH THE GOVERNMENTAL CONDUCT ACT (OTHER NON-COMPLIANCE)

CONDITION

Our audit included a review of the School's Policy Manual to determine compliance with the Governmental Conduct Act. Our testwork identified the following:

- The School has two policies that outline codes of conduct expected to be followed by employees. Policy #130 Code of Ethics and Conduct was effective April 15, 2011. Policy #329 Procurement Code of Conduct was effective May 19, 2017. The School has not updated Policy #130 Code of Ethics and Conduct in the last four years.
- The School has not filed their codes of conduct with the Secretary of State's office.
- The School does not have supporting documentation that employees review the codes of conduct within 30 days of them being adopted.
- The School does not require employees to sign a written disclosure of conflicts of interest.

CRITERIA

Section 10-16-11 (D) NMSA 1978 states that "[c]odes of conduct shall be reviewed at least once every four years. An amended code shall be filed as provided in Subsection C of this section."

Section 10-16-11 (C) NMSA 1978 states that "the head of every executive and legislative agency and institution of the state may draft a separate code of conduct for all public officers and employees in that agency or institution...All codes shall be filed with the secretary of state and are open to public inspection."

Section 10-16-11 (B) NMSA 1978 states that "[w]ithin thirty days after the general codes of conduct are adopted, they shall be given to and reviewed by all executive and legislative branch officers and employees. All new public officers and employees of the executive and legislative branches shall review the employees' general code of conduct prior to or at the time of being hired."

Section 10-16-3 (C) NMSA 1978 states that "[f]ull disclosure of real or potential conflicts of interest shall be a guiding principle for determining appropriate conduct."

EFFECT

The School may not be in compliance with certain sections of the Governmental Conduct Act.

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SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2017

2017-010 NON-COMPLIANCE WITH THE GOVERNMENTAL CONDUCT ACT (OTHER NON-COMPLIANCE) - CONTINUED

CAUSE

The School does not appear to have been aware of certain provisions of the Governmental Conduct Act.

RECOMMENDATION

The School should review and amend their policies and procedures to comply with provisions of the Governmental Conduct Act.

MANAGEMENT RESPONSE

The position of NMSD as a state educational institution had led to uncertainty about the application of the GCA, which has now been clarified. The School for the Deaf does not intend to refuse to comply with the Governmental Conduct Act, but it should be noted that NMSD had not previously been advised, even in previous audits, that it must do so, after the GCA was amended to broaden its application several years ago. NMSD is committed to providing the follow-up actions needed, through policy, practices and training, to implement its requirements prior to the end of the current fiscal year. The Director of Finance plans to have this corrected by June 30, 2018.

**State of New Mexico
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EXIT CONFERENCE

June 30, 2017

An exit conference was held at the New Mexico School for the Deaf campus on January 26, 2017, with the following individuals in attendance:

New Mexico School for the Deaf

Lynann Barbero

Mark Apodaca

Rosemary Gallegos

Rick Garcia

Board President

Director of Finance

Superintendent

Director of Human Resources

Office of the State Auditor

Kevin Sourisseau, CPA

Lynette Kennard, CPA, CGFM

Chelsea Martin, CPA, CFE, CICA, CRFAC

Acting Deputy State Auditor/Special

Investigations Director

Financial Audit Director

Audit Supervisor

Presentation: The accompanying financial statements are the responsibility of the School's management and are based on information from the School's financial records. The Office of the State Auditor prepared the financial statements with assistance provided by the School.