



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

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

June 30, 2018

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

BOARD OF REGENTS

June 30, 2018

Mr. Nathan Gomme	President
Ms. Lynann Barbero	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, 2018, 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, 2018, 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.

Opinion

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, 2018 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, 2018, 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 for the New Mexico School for the Deaf are intended to present the financial position, and the changes in financial position and cash flows for 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, 2018, and the changes in 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 16, pension statements on pages 48 through 51, and other post-employment retirement benefits on pages 52 through 54 to 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 December 3, 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.

A handwritten signature in cursive script that reads "Office of the State Auditor".

Office of the State Auditor
Santa Fe, New Mexico
December 3, 2018

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

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

June 30, 2018

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 FY2018, total assets increased by 2.7% or \$1,715,759 over FY2017. Current assets, which include cash, cash equivalents, short-term investments, accounts receivable and inventories, increased by 4.4% or \$426,660 while noncurrent assets, which includes restricted cash and cash equivalents and capital assets (buildings, equipment, and property) increased by 2.4% or \$1,289,099 from the previous fiscal year.

For liabilities, total liabilities increased by 57.0% or \$16,441,491. This was mostly due to the net pension liability increasing by 56.0% or \$15,697,601 from FY2017. Current liabilities (accounts payable, accrued compensated absences, and payroll taxes) increased by 120.6% or \$741,080 from FY2017. Noncurrent liabilities, which includes accrued compensated absences, pension liability, other post retirement benefits and deposits from students, increased by \$15,700,411 or 55.6% from FY2017.

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, 2018, net position decreased by 38.1% or \$15,412,207 from FY2017. This decrease is largely due to the restatement of other post-retirement benefits in the amount of (12,180,440).

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

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

June 30, 2018

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Net Position – Continued

ASSETS

	2018	2017
Current assets	\$ 10,041,246	\$ 9,614,586
Non-current assets	55,281,269	53,992,170
Total assets	65,322,515	63,606,756

DEFERRED OUTFLOWS OF RESOURCES

	8,513,326	6,003,392
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LIABILITIES

Current liabilities	1,355,467	614,387
Non-current liabilities	43,934,587	28,234,176
Total liabilities	45,290,054	28,848,563

DEFERRED INFLOWS OF RESOURCES

	3,508,969	312,060
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NET POSITION

Net investment in capital assets	50,577,842	49,671,811
Restricted	5,014,267	4,628,278
Unrestricted	(30,555,291)	(13,850,564)
Total net position	\$ 25,036,818	\$ 40,449,525

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

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

June 30, 2018

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Net Position – Continued

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, 2018

FINANCIAL HIGHLIGHTS – CONTINUED

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

Operating Revenues

Operating revenues for FY2018 was \$1,129,786, an increase of 5.6% from FY2017. While revenues from other operating revenues was more in FY2018 than FY2017, Federal grants and contracts revenue and joint powers agreements revenues were 21.0% and 5.6% more in FY2018 than FY2017, 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 5.6% more in funds from public schools in FY2018 than in FY2017. Most of the funds came from the Albuquerque Public Schools and Santa Fe Public Schools followed by seven other public schools districts.

OPERATING REVENUES

Federal grants and contracts	\$ 767,681	\$ 634,572	\$ 133,109	21.0%
Other operating revenues	133,905	970,487	(836,582)	-86.2%
Joint Powers Agreements	228,200	216,000	12,200	5.6%
	<u>1,129,786</u>	<u>1,821,059</u>	<u>(691,273)</u>	
Total operating revenues	1,129,786	1,821,059	(691,273)	-38.0%

OPERATING EXPENSES

Instruction	7,370,001	5,096,479	2,273,522	44.6%
Academic support	4,058,480	4,007,377	51,103	1.3%
Operation and maintenance of plant	2,778,016	2,967,419	(189,403)	-6.4%
Student services	2,932,879	2,845,010	87,869	3.1%
Institutional support	2,717,137	2,533,662	183,475	7.2%
Depreciation	2,314,629	1,785,349	529,280	29.6%
Outside contracts and grants	1,874,315	1,910,231	(35,916)	-1.9%
	<u>24,045,457</u>	<u>21,145,527</u>	<u>2,899,930</u>	
Total operating expenses	24,045,457	21,145,527	2,899,930	13.7%
Net operating loss	(22,915,671)	(19,324,468)	(3,591,203)	18.6%

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

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

June 30, 2018

FINANCIAL HIGHLIGHTS – CONTINUED

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

	<u>2018</u>	<u>2017</u>	<u>Variance</u>	<u>Percent</u>
NON-OPERATING REVENUES (EXPENSES)				
Land and permanent fund income	13,214,430	12,477,329	737,101	5.9%
State appropriations	4,055,900	4,076,400	(20,500)	-0.5%
Gain on disposal of capital assets	74,358	33,678	40,680	120.8%
Investment income	3,047	21,105	(18,058)	-85.6%
	<u>17,347,735</u>	<u>16,608,512</u>	<u>739,223</u>	<u>4.5%</u>
Total non-operating revenues				
Change in net position before capital items	(5,567,936)	(2,715,956)	(2,851,980)	105.0%
CAPITAL ITEMS				
Bond Proceeds Appropriations	939,111	1,480,425	(541,314)	-36.6%
Award Proceeds from Public Schools	-			0.0%
Facility Administration	1,396,558	1,158,783	237,775	-5.7%
	<u>\$ (3,232,267)</u>	<u>\$ (76,748)</u>	<u>\$ (3,155,519)</u>	<u>4111.5%</u>
Changes in net position				
NET POSITION				
Net position, beginning of year	\$ 40,449,525	\$ 40,526,267	\$ (76,742)	-0.2%
Restatement (GASB 75)	(12,180,440)			
Net position, end of year	<u>\$ 25,036,818</u>	<u>\$ 40,449,525</u>	<u>\$ (15,412,707)</u>	<u>-38.1%</u>

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 FY2018, the school's operating expenses were \$24,045,457 and about 13.7% more than FY2017. Instruction and General covers academic support, instruction, student services, institutional support and operation and maintenance of the plant. During FY2018, \$14,361,300 covered costs associated to students (instruction, academic support, and student support) which was 20.2% more than FY2017. However, of the total Instruction and General costs for FY2018, 71.2% covered instruction, academic support and student support. The rest (28.8%) 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, 2018

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 FY2018, NMSD received \$13,214,430 from the state's land and permanent funds and \$4,055,900 from state appropriations. Revenues from the land and permanent fund were 5.9% more than FY2017 while appropriations for FY2018 were -0.5% less than FY2017.

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, 2018 for NMSD's CD and LGIP accounts was \$340,909 and \$6,155,546, respectively.

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

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

June 30, 2018

FINANCIAL HIGHLIGHTS – CONTINUED

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

Capital Items

During FY2018, NMSD was involved with three capital projects involving the second floor of Dining Hall, Delgado Hall and Cartwright Hall. The Cartwright Hall construction costs were covered by the Public Schools Facility Authority (PSFA). Delgado Hall was covered by the General Obligation Bonds while Dining Hall was covered by NMSD. Total costs were \$3,672,504.

Statement of Cash Flows

NMSD ended FY2018 with a cash and restricted cash equivalent balance of \$7,131,586. 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:

	2018	2017	Net Increase (Decrease)	Percent
CASH FLOWS FROM OPERATING ACTIVITIES				
Federal grants and contract revenues	\$ 961,026	\$ 820,138	\$ 140,888	17.2%
Payments to vendors and suppliers	(2,237,433)	(3,468,039)	1,230,606	-35.5%
Payments to employees and for employee benefits	(14,512,845)	(14,188,818)	(324,027)	2.3%
Other revenues	(15,035)	1,048,013	(1,063,048)	-101.4%
Net cash used in operating activities	<u>\$ (15,804,287)</u>	<u>\$ (15,788,706)</u>	<u>\$ (15,581)</u>	0.1%

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

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

June 30, 2018

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Cash Flows – Continued

During FY2018, net cash used in operating activities totaled \$15,084,287 which was .1% less compared to FY2017. The cash covered staff salaries, benefits, and operating costs such as supplies, travel, and professional services.

The next category covers non-capital financing activities. This basically covers state appropriations and the land and permanent funds. Cash inflow increased in FY2018 by \$1,632,812 or 9.8% from FY2017.

	2018	2017	Net Increase (Decrease)	Percent
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	\$ 4,055,900	\$ 4,076,400	\$ (20,500)	-0.5%
Land and permanent fund income	14,191,176	12,537,864	1,653,312	13.2%
Net cash provided by noncapital financing activities	<u>\$ 18,247,076</u>	<u>\$ 16,614,264</u>	<u>\$ 1,632,812</u>	9.8%

Cash flows from capital related financing activities cover capital outlays which includes capital projects, vehicles, and technology. During FY2018, bond proceeds from PSFA decreased by \$756,244 or 45.5% from FY2017. Total purchases, construction and renovation of capital assets was \$1,824,102 during FY2018 compared to \$1,786,971 for FY2017.

	2018	2017	Net Increase (Decrease)	Percent
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Bond proceeds from Public Schools Facility Authority	\$ 905,100	\$ 1,661,344	\$ (756,244)	-45.5%
Purchases, construction, and/or renovation of capital assets	(1,824,102)	(1,786,971)	(37,131)	2.1%
Net cash used in financing activities	<u>\$ (919,002)</u>	<u>\$ (125,627)</u>	<u>\$ (793,375)</u>	631.5%

The last category covers cash flows from investing activities. During FY2018, net cash increased by \$40,679. This category involves NMSD's investments in the Local Government Investment Pool which is managed by the New Mexico State Treasurer's Office CD's held with First National Santa Fe, and sale of equipment.

	2018	2017	Net Increase (Decrease)	Percent
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	\$ 74,357	\$ 33,678	\$ 40,679	120.8%
Proceeds from sale of equipment	5,723	21,105	5,723	-72.9%
Purchase of investments	(72,747)	(31,172)	(41,575)	133.4%
Net cash provided by investing activities	<u>\$ 7,333</u>	<u>\$ 23,611</u>	<u>\$ (16,278)</u>	-68.9%

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, 2018

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 FY2018. 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 construction of Dining, Delgado and Cartwright Halls. Capital outlays also included technology and vehicle purchases.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 7,280,444	\$ 8,303,748	\$ 1,023,304	14%
REVENUES				
PSFA and Bond proceeds	2,439,243	2,335,669	(103,574)	-4%
Interest income	-	9,474	9,474	0%
Government grants and contracts	29,835	-	(29,835)	-100%
Sales and services	-	98,372	98,372	0%
Other sources	-	6,877	6,877	0%
Total revenues	2,469,078	2,450,392	(18,686)	-1%
EXPENDITURES				
Instruction and general:				
Public service	1,141,782	984,764	157,018	-14%
Capital outlay	3,554,691	3,672,504	(117,813)	-3%
Renewals and replacements	125,000	17,696	107,304	3%
Total instruction and general expenditures	4,821,473	4,674,964	146,509	3%
TRANSFERS				
Transfers in	1,047,407	1,618,468	571,061	55%
Transfers out	-	-	-	0%
Total transfers	1,047,407	1,618,468	571,061	55%
Changes in net position (budgetary basis)	(1,304,988)	(606,104)	698,884	
Ending fund balance	\$ 5,975,456	\$ 7,697,644	\$ 1,722,188	29%

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

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

June 30, 2018

BUDGET COMPARISONS – CONTINUED

During FY2018, \$1,618,468 was transferred from Unrestricted Instruction and General to cover Educational Consultation Training (ECT) salaries, benefits, and expenses. The total expenditures for ECT were \$984,764.

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 \$17,427,783 and actuals were \$17,370,799. The budget for land and permanent fund was \$13,198,671, but actuals stood at \$13,214,430, which was favorable at \$15,759. However, actuals from state appropriations balanced. Actuals from other sources ended at \$100,469, which was \$72,743 less than what was budgeted for. On the expenditure side, the final budget was \$16,380,576 and actuals were \$15,128,393.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 4,839,688	\$ (14,894,530)	\$ (19,734,218)	-408%
REVENUES				
State appropriations	4,055,900	4,055,900	-	0%
Endowments and land permanent funds	13,198,671	13,214,430	15,759	0%
Other sources	173,212	96,586	(76,626)	-44%
Total revenues	17,427,783	17,366,916	(60,867)	0%
EXPENDITURES				
Instruction and general:				
Academic support	4,118,088	4,060,695	57,393	-1%
Instruction	4,063,836	3,165,865	897,971	-22%
Institutional support	2,720,980	2,717,137	3,843	0%
Operation and maintenance of plant	2,319,844	2,308,472	11,372	0%
Student services	3,157,828	2,878,439	279,389	-9%
Total instruction and general expenditures	16,380,576	15,130,608	1,249,968	-8%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	(1,047,407)	(1,618,468)	(571,061)	55%
Total transfers	(1,047,407)	(1,618,468)	(571,061)	55%
Changes in net position (budgetary basis)	(200)	617,839	618,039	
Ending fund balance	\$ 4,839,488	\$ (14,276,691)	\$ (19,116,179)	-395%

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

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

June 30, 2018

BUDGET COMPARISONS – CONTINUED

Under the transfers section, \$1,618,468 was transferred to Public Service (Educational Consultant Training).

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, Navajo Nation, Spoken Language Grant and Medicare totaled \$767,682 which was over the budget by \$38,156. Revenues from Joint Partnership Agreements with public schools earned the school \$228,000, which was less than the final budget by \$51,800.

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

	Final Budget	Actual	Over/(Under) Budget	Percent
Beginning fund balance	\$ 267,793	\$ 204,284	\$ (63,509)	
REVENUES				
Federal revenue sources	729,526	767,682	38,156	5%
Joint powers agreements	<u>280,000</u>	<u>228,200</u>	<u>(51,800)</u>	-19%
Total revenues	1,009,526	995,882	(13,644)	-1%
EXPENDITURES				
Instruction and general:				
Instruction	1,009,526	941,778	67,748	-7%
Public service	<u>-</u>	<u>-</u>	<u>-</u>	0%
Total instruction and general expenditures	1,009,526	941,778	67,748	-7%
TRANSFERS				
Transfers in	-	-	-	0%
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	0%
Total transfers	-	-	-	0%
Changes in net position (budgetary basis)	<u>-</u>	<u>54,104</u>	<u>54,104</u>	
Ending fund balance	<u>\$ 267,793</u>	<u>\$ 258,388</u>	<u>\$ (9,405)</u>	-4%

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

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

June 30, 2018

BUDGET COMPARISONS – CONTINUED

The net position for Restricted Funds increased by \$54,104. The ending fund balance is \$258,388. By the end of FY2018, 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.

CAPITAL ASSETS

At the end of the fiscal year June 30, 2018, the school’s net capital assets stood at \$50,577,842. This was a net increase of \$906,031 from 2017.

	2018	2017	(Decrease)	Percent
Buildings	\$ 45,281,437	\$ 46,701,811	\$ (1,420,374)	-3.0%
Land and improvements	1,623,400	1,623,400	-	0.0%
Construction in progress	2,905,161	429,247	2,475,914	576.8%
Vehicles	364,921	489,407	(124,486)	-25.4%
Artwork	209,550	209,550	-	0.0%
Equipment and furniture	111,848	131,776	(19,928)	-15.1%
Infrastructure	81,525	86,620	(5,095)	-5.9%
Computer equipment	-	-	-	0.0%
	<u>\$ 50,577,842</u>	<u>\$ 49,671,811</u>	<u>\$ 906,031</u>	1.8%
Total capital assets, net				

ECONOMIC OUTLOOK

NMSD’s economic outlook is closely related to its role as the only school for the deaf and hard-of-hearing in the State of New Mexico. The school serves over 600 students and children through its Santa Fe campus, and Farmington, Albuquerque, and Las Cruces preschools, and Center for Educational Consultation and Training and Early Intervention and Involvement Programs. 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, 2018

CURRENT ASSETS	
Cash and cash equivalents	\$ 2,428,159
Certificates of deposit	340,909
Local Government Investment Pool	6,155,446
Accounts receivable, net of allowance for doubtful accounts of \$47,651	292,502
General Obligation Bond proceeds receivable - due from DFA - Board of Finance (GOB17 A5132)	776,563
Inventories	47,667
Total current assets	<u>10,041,246</u>
NONCURRENT ASSETS	
Restricted cash and cash equivalents	4,703,427
Capital assets, net	50,577,842
Total noncurrent assets	<u>55,281,269</u>
Total assets	<u>65,322,515</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	8,318,538
Other Post Retirement Benefits Related	194,788
Total Deferred Outflows of Resources	<u>8,513,326</u>
CURRENT LIABILITIES	
Accounts payable	\$ 1,002,841
Accrued compensated absences - current portion	217,214
Payroll taxes and fringe benefits - accrued and withheld	135,412
Total current liabilities	<u>1,355,467</u>
NONCURRENT LIABILITIES	
Accrued compensated absences, less current portion	41,951
Deposits from students	158,344
Net Pension Liability	33,480,022
Net Other Post Retirement Benefits	10,254,270
Total noncurrent liabilities	<u>43,934,587</u>
Total liabilities	<u>45,290,054</u>
DEFERRED INFLOWS OF RESOURCES	
Pension Related	1,175,122
Other Post Retirement Benefits Related	2,333,847
Total Deferred Inflows of Resources	<u>3,508,969</u>
NET POSITION	
Net investment in capital assets	50,577,842
Restricted - expendable for:	
Other programs	4,703,427
Grants and scholarships	288,816
Special events	22,024
Unrestricted (deficit)	(30,555,291)
Total net position	<u>\$ 25,036,818</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, 2018

OPERATING REVENUES	
Federal contracts and and other grant revenue	\$ 767,681
Other revenues	133,905
Joint Powers Agreements	228,200
Total operating revenues	<u>1,129,786</u>
OPERATING EXPENSES	
Instruction	7,370,001
Academic support	4,058,480
Operation and maintenance of plant	2,778,016
Student services	2,932,879
Institutional support	2,717,137
Depreciation	2,314,629
Outside contracts and grants	1,874,315
Total operating expenses	<u>24,045,457</u>
Net operating loss	(22,915,671)
NON-OPERATING REVENUES	
Land and permanent fund income	13,214,430
State general fund appropriations	4,055,900
Investment income	74,358
Gain on disposal of capital assets	3,047
Total non-operating revenues	<u>17,347,735</u>
Change in net position before capital items	(5,567,936)
CAPITAL ITEMS	
General obligation revenue bond proceeds	923,124
Severance tax bond proceeds	15,987
Public Schools Facility Authority bond proceeds	1,396,558
Change in net position	<u>(3,232,267)</u>
NET POSITION	
Net position, beginning of year	40,449,525
Restatement - Other post retirement benefits (Note Q)	(12,180,440)
Net position, end of year	<u><u>\$ 25,036,818</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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Federal grants and contract revenues	\$ 961,026
Payments to vendors and suppliers	(2,237,433)
Payments to employees and for employee benefits	(14,512,845)
Other revenues	(15,035)
Net cash used in operating activities	(15,804,287)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	4,055,900
Land grant permanent fund income	14,191,176
Net cash provided by noncapital financing activities	18,247,076

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Severance tax and general obligation bond proceeds	905,100
Purchases, construction, and/or renovation of capital assets	(1,824,102)
Net cash used in capital financing activities	(919,002)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	74,357
Proceeds from sale of equipment	3,047
Purchase of investments	(72,747)
Net cash provided by investing activities	4,657

NET INCREASE IN CASH AND RESTRICTED CASH AND CASH EQUIVALENT 1,528,444

Cash and restricted cash and cash equivalents, beginning of year	5,603,142
Cash and restricted cash and cash equivalents, end of year	\$ 7,131,586

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

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

STATEMENT OF CASH FLOWS, CONTINUED

Year ended June 30, 2018

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

Net operating loss	\$ (22,915,671)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,314,629
Changes in assets and liabilities:	
Accounts receivable	(157,376)
Inventory	(3,643)
Prepaid Expenses	9,748
Accounts payable	740,626
Accrued liabilities and compensated absences and deposits	38,119
Program advances	(34,855)
Change in net pension liability	5,443,331
Change in other post employment benefits liability	(1,926,170)
Change in deferred outflows of resources	(2,509,934)
Change in deferred inflows of resources	3,196,909
	<hr/>
Net cash used in operating activities	\$ (15,804,287)

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

	<u>2018</u>
Capital assets acquired through payments made by Public Schools Facility Authority	\$ 1,396,558

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, 2018

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, 2018

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.

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, 2018.

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, 2018

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

Certain cash, cash equivalents, and investments are designated by the Board of Regents of the School for specific purposes (Note B 12). For purposes of the Statements of Cash Flows, the School considers all cash on hand and in banks and all highly liquid securities and investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents include grants, and Joint Powers Agreements. These funds are considered highly liquid and are 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

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- CONTINUED

June 30, 2018

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. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. 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.

10. 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.

11. Other Accrued Liabilities

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

12. 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 2018.

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,

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Net Position - Continued

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, 2018. The amount of expendable net position is \$310,840 at June 30, 2018.

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, 2018.

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.

13. 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.

14. 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.

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Classification of Expenses

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

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

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

16. 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.

17. 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 \$4,055,900 for fiscal year 2018, The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2019.

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

18. Land Grant Permanent Income

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

19. 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.

20. GASB Statement No. 77, Tax Abatement Disclosure

The School is not subject to any tax abatement agreements subject to being reported under the requirements of GASB 77.

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, 2018, (book balances) were \$7,131,586. The School's investment in the LGIP and certificates of deposits combined book balances were \$6,496,357. Restricted and unrestricted cash net of overdrafts in the amount of \$8,100,475 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	\$ 500,000
Collateralized	7,600,475
Uninsured and uncollateralized	-
Total deposits	\$ 8,100,475

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

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

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, 2018, the School's deposits were fully insured or collateralized. See Schedule 6.

The remaining balance of \$6,155,446 in the local government investment pool is valued by the State Treasurer. The School has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*.

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

As of June 30, 2018, the New Mexico LGIP AAAM Rated \$6,155,446 [50] day WAM (R); [100] 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, 2018 were as follows:

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE D – CAPITAL ASSETS - CONTINUED

Asset Description	Balance at 6/30/2017	Additions	Deletions	Reclassifications	Balance at 6/30/2018
Non-depreciable					
Construction in progress	\$ 429,247	\$ 3,208,735	\$ -	(732,821)	\$ 2,905,161
Land and improvements	1,623,400	-	-	-	1,623,400
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	67,763,021	-	-	732,821	68,495,842
Equipment and furniture	815,995	11,925	(217,664)	-	610,256
Computers	141,895	-	(48,064)	-	93,831
Automotive equipment	1,465,491	-	-	-	1,465,491
Infrastructure	127,382	-	-	-	127,382
Capital assets	72,575,981	3,220,660	(265,728)	-	75,530,913
Accumulated depreciation					
Buildings	(21,061,210)	(2,153,195)	-	-	(23,214,405)
Equipment and furniture	(684,219)	(31,853)	217,664	-	(498,408)
Computers	(141,895)	-	48,064	-	(93,831)
Automotive equipment	(976,084)	(124,486)	-	-	(1,100,570)
Infrastructure	(40,762)	(5,095)	-	-	(45,857)
Total accumulated depreciation	(22,904,170)	(2,314,629)	265,728	-	(24,953,071)
Total net capital assets	\$ 49,671,811	\$ 906,031	\$ -	-	\$ 50,577,842

Depreciation expense was \$2,314,629 for the year ended June 30, 2018.

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 \$52,958 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:	
2019	\$ 43,660
2020	22,762
2021	14,153
2022	13,781
2023	-
Total minimum payments required	\$ 94,356.00

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE F – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2018:

Land and permanent fund	\$	21,376
Federal funding sources		3,450
Other receivables		<u>315,327</u>
 Total receivables		 340,153
 Allowance for doubtful accounts		 <u>(47,651)</u>
 Net amounts receivable	 \$	 <u><u>292,502</u></u>

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	<u>\$ 776,563</u>	DFA - Board of Finance (85300)
Total Due from Other State Agencies			<u><u>\$ 776,563</u></u>	

NOTE G – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018 are summarized as follows:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018	Amount Due within One Year
Accrued sick leave	\$ 72,800	\$ 25,574	\$ 8,030	\$ 90,344	\$ 90,344
Accrued annual leave payable	<u>156,682</u>	<u>165,297</u>	<u>153,158</u>	<u>168,821</u>	<u>126,870</u>
 Total accrued compensated absences	 <u>\$ 229,482</u>	 <u>\$ 190,871</u>	 <u>\$ 161,188</u>	 <u>\$ 259,165</u>	 <u>\$ 217,214</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)

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

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Educational Retirement Board (ERB) – Continued

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.

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

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Educational Retirement Board (ERB) – Continued

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.

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 2018. Contributions to the pension plan from the School were \$627,452.

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 measured on June 30, 2016 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, 2018, using generally accepted actuarial principles. At June 30, 2018, the School reported a liability of \$17,018,054 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, 2017. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2017, the (School's) proportion was .15313 percent, which was a decrease of .00025 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized pension expense of \$2,321,937. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Educational Retirement Board (ERB) – Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 30,549	\$ 262,179
Changes in assumptions	4,967,904	-
Net difference between projected and actual earnings on pension plan investments	-	2,335
Changes in proportion and differences between the School's contributions and proportionate share of contributions	115,749	57,228
The School's contributions subsequent to the measurement date	627,452	-
Total	\$ 5,741,654	\$ 321,742

\$627,452 reported as deferred outflows of resources related to pensions resulting from the School's contributions, subsequent to the measurement date June 30, 2017, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	1,815,684
2019		1,964,076
2020		1,152,835
2021		(140,131)
2022		-
		\$ 4,792,464

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, 2016. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2017 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Educational Retirement Board (ERB) – Continued

to the roll-forward liabilities as of June 30, 2017. Specifically, the liabilities measured as of June 30, 2017 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if 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	Healthy males: RP-2000 Combined Mortality Table with White Collar Adjustment, generational mortality improvements with Scale BB. 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.

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.); and structural themes (supply and demand imbalances, capital flows, etc.) 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.

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Educational Retirement Board (ERB) – Continued

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Equities	33%	
Fixed Income	26%	
Alternatives	40%	
Cash	1%	
Total	100%	7.25%

Discount rate: A single discount rate of 5.9% was used to measure the total ERB pension liability as of June 30, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.56%. Based on the stated assumptions and the projection of cash flows, the Plan’s fiduciary net position and future contributions were projected to finance benefit payments through the year 2053. As a result, the long-term expected rate of return on Plan investments was applied to projected benefit payments through the 2053 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the School’s proportionate share of the net pension liability to changes in the discount rate: The following table shows the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2017. In particular the table presents the School’s proportionate share of the net pension liability if it were calculated using a discount rate one percentage point lower (4.90%) or one percentage point higher at (6.90%) than the single discount rate.

	1% Decrease (4.90%)	Current Discount Rate (5.90%)	1% Increase (6.90%)
NMSD’s proportionate share of the net pension liability	\$ 22,153,274	\$ 17,018,054	\$ 12,820,429

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, 2017, 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, 2018.

2. Public Employees Retirement Fund (PERA)

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)

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS
Public Employees Retirement Fund (PERA) – 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, 2017 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 FY17 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 \$852,542 and employer paid member benefits that were "picked up" by the employer were \$0 for the year ended June 30, 2018.

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, 2016. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2017.

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 preformed 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, 2017. Only employer contributions for the pay period end dates that fell within the period of July 1, 2016 to June 30, 2017 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to 2017 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS
Public Employees Retirement Fund (PERA) – Continued

For PERA Fund Division State General, at June 30, 2018, the School reported a liability of \$16,461,967 for its proportionate share of the net pension liability. At June 30, 2017, the School's proportion was 0.54057 percent, which is an increase of .02229 percent. For the year ended June 30, 2018, the School recognized PERA Fund Division State General pension expense of \$2,521,852. At June 30, 2018, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 482,688	\$ 692,033
Changes in assumptions	757,643	161,348
Net difference between projected and actual earnings on pension plan investments	484,012	-
Changes in proportion and differences between the School's contributions and proportionate share of contributions	-	-
The School's contributions subsequent to the measurement date	852,542	-
Total	\$ 2,576,885	\$ 853,381

\$852,542 reported as deferred outflows of resources related to pensions resulting from the School contributions subsequent to the measurement date of June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	254,086
2019		776,824
2020		39,442
2021		(199,391)
2022		-
		\$ 870,961

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Public Employees Retirement Fund (PERA) – 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, 2016 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, 2017 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, 2017. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2017 actuarial valuation.

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year Smooth Market Value
Actuarial assumptions:	
Investment rate of return	7.51% 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	Mortality Tables 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	100.00%	

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS
Public Employees Retirement Fund (PERA) – Continued

Discount rate: A select and ultimate rate of return assumption has been adopted funding purposes for PERA funds. The rate is 7.25% for the first 9 years (select period) and 7.75% for all other years (ultimate). The equivalent blended rate is 7.48% and will be used as the discount rate used to measure the total pension liability. 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 7.51% 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 table presents the net pension liability of the school, calculated using a discount rate of 7.51%, as well as what the schools net pension liability would be if it were calculated using a discount rate of one percentage point lower (6.51%) or one percentage point higher (8.51%) than the single discount rate.

	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
PERA Fund Division General State			
NMSD's proportionate share of the net pension liability	\$ 21,294,373	\$ 16,461,967	\$ 11,856,771

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued FY17 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, 2018.

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NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

3. Other Post-Employment Benefits (OPEB - State Retiree Health Care Plan)

Plan description. Employees of the School are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA’s financial information is included with the financial presentation of the State of New Mexico.

Benefits provided. The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Employees covered by benefit terms – At June 30, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Employees covered by benefit terms - At June 30, 2017, the Fund's measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	160,035
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	97,349

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Other Post-Employment Benefits (OPEB - State Retiree Health Care Plan, continued)

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the School were \$194,233 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the School reported a liability of \$10,254,270 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the School’s proportion was 0.22628 percent.

For the year ended June 30, 2018, the School recognized OPEB expense of \$407,677. At June 30, 2018 the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 393,504
Changes in assumptions	-	1,792,828
Net difference between projected and actual earnings on pension plan investments	-	147,515
Changes in proportion and differences between the School's contributions and proportionate share of contributions	-	-
The School's contributions subsequent to the measurement date	194,788	-
Total	\$ 194,788	\$ 2,333,847

Deferred outflows of resources totaling \$194,788 represent School contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

State of New Mexico
New Mexico School for the Deaf

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Other Post-Employment Benefits (OPEB - State Retiree Health Care Plan, continued)

Year ended June 30:

2019	\$	(496,192)
2020		(496,192)
2021		(496,192)
2022		(496,192)
2023		(349,079)
		<hr/>
	\$	(2,333,847)
		<hr/>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.5% for ERB; 2.25% for PERA
Projected payroll increases	3.5%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare plan costs

Rate of Return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Other Post-Employment Benefits (OPEB - State Retiree Health Care Plan, continued)

The best estimates for the long-term expected rate of return is summarized as follows:

Asset Class	Long Term Rate of Return
U.S. Core Fixed Income	4.1%
U.S. Equity - Large Cap	9.1%
Non U.S. - Developed Equities	12.2%
Non U.S. - Emerging Markets	9.8%
Private Equity	13.8%
Credit and Structured Finance	7.3%
Real Estate	6.9%
Absolute Return	6.1%
U.S. Equity - Small/Mid Cap	9.1%

Discount Rate. The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the School, as well as what the School's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

	1% Decrease (2.81%)	Current Discount Rate (3.81%)	1% Increase (4.81%)
New Mexico Retiree Health Care	(2.81%)	(3.81%)	(4.81%)
NMSD's proportionate share of the net OPEB liability	\$ 12,438,269	\$ 10,254,270	\$ 8,540,726

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE H – RETIREMENT AND BENEFIT PROGRAMS

Other Post-Employment Benefits (OPEB - State Retiree Health Care Plan, continued)

The following presents the net OPEB liability of the School, as well as what the School’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rates	1% Increase
NMSD's proportionate share of the net OPEB liability	\$ 8,721,963	\$ 10,254,270	\$ 11,449,090

OPEB plan fiduciary net position. Detailed information about the OPEB plan’s fiduciary net position is available in NMRHCA’s audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability. At June 30, 2018, the School reported a payable of \$26,227 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

4. 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.

5. 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.

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

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 for FY2018 are approximately \$5,449,297.

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

NOTE J– CONTINGENCY

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

NOTE K– JOINT POWERS AGREEMENTS

The School has entered into joint powers agreements to provide services to deaf and hard-of-hearing children in school districts throughout New Mexico. The school districts pay for services from the School to benefit children in their district. The school districts are considered governmental agencies and are required to have their own financial audit. These agreements are renewed annually. See Schedule 8.

The following is a list of participating school districts:

Albuquerque Public Schools	Farmington Public Schools
Las Cruces Public Schools	Espanola Schools
Rio Rancho Public Schools	Belen Consolidated District Schools
Santa Fe Public Schools	Gallup McKinley Schools
Las Vegas Public Schools	Central Consolidated Schools

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

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE L – BOND ACCOUNTING

Public Schools Finance Authority (PSFA)

The 2014 legislature appropriated \$7,038,365 under HB 55 Section 46 for New Mexico School for the Deaf Cartwright Hall project. The project is administered by the PSFA. The appropriation is from the unexpended proceeds of severance tax bonds issued for other projects. PSFA participates in the proposal and procurement process and pays approved invoices directly to the vendor. The New Mexico School for the Deaf records capital projects income based on approved amounts as reported on the PSFA website. The amount recorded as awards proceeds is \$1,396,558 for 2018.

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.

NOTE M– INTERAGENCY TRANSFERS

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

	<u>2018</u>
General Fund Appropriations –	<u>\$ 4,055,900</u>
Bond Proceed Appropriations –	<u>\$ 15,987</u>

NOTE N– OTHER REQUIRED DISCLOSURES

Unrestricted current funds – Capital outlay exceeded approved budgetary authority for the year ended June 30, 2018 by \$117,813.

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

NOTES TO FINANCIAL STATEMENTS- CONTINUED

June 30, 2018

NOTE O – 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 implemented GASB 75 in the June 30, 2018 financial statements. See Note H for full disclosure.

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 P – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 3, 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, 2018. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTE Q – RESTATEMENT

Net position at June 30, 2017 was restated by \$12,180,440 as a result of implementation of Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION - ERB

June 30, 2018

**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	\$ 17,018,054	-	-	-	-	-	-
School's proportionate share of the net pension liability	0.15258%	0.14953%	0.15338%	0.15313%	-	-	-	-	-	-
School's covered-employee payroll	\$ 4,205,601	\$ 4,082,648	\$ 4,360,963	\$ 4,514,040	-	-	-	-	-	-
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	207%	237%	263%	377%	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	66.54%	63.97%	61.58%	52.95%	-	-	-	-	-	-

*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	\$ 627,452	-	-	-	-	-	-
Contributions in relation to the contractually required contribution	\$ 590,835	\$ 608,891	\$ 606,174	\$ 627,452	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	-	-	-	-	-	-
NMSD's covered-employee payroll	\$ 4,205,601	\$ 4,082,648	\$ 4,360,963	\$ 4,514,040	-	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	14.05%	14.91%	13.90%	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, 2018

Changes of benefit terms and assumptions: There were no benefit or assumption changes since the last actuarial valuation. However, the system adopted assumption changes after the last valuation which resulted in a net 823.1 million increase in unfunded actuarial accrued liability.

See full report at:

http://www.nmerb.org/pdfs/NMERB_val17-FINAL.pdf

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

REQUIRED SUPPLEMENTARY INFORMATION - PERA

June 30, 2018

**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***

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
School's proportion of the net pension liability	\$ 9,697,851	\$ 12,319,370	\$ 16,998,800	\$ 16,461,967	-	-	-	-	-	-
School's proportionate share of the net pension liability	0.54000%	0.54989%	0.51828%	0.05406%	-	-	-	-	-	-
School's covered-employee payroll	\$ 4,996,304	\$ 4,823,758	\$ 5,112,838	\$ 5,017,902	-	-	-	-	-	-
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	194%	255%	332%	328%	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	81.29%	76.99%	69.18%	73.74%	-	-	-	-	-	-

* 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***

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Contractually required contribution	\$ 849,111	\$ 819,557	\$ 868,672	\$ 852,542	-	-	-	-	-	-
Contributions in relation to the contractually required contribution	\$ 849,111	\$ 819,557	\$ 868,672	\$ 852,542	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	-	-	-	-	-	-
NMSD's covered-employee payroll	\$ 4,996,304	\$ 4,823,758	\$ 5,112,838	\$ 5,017,902	-	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	16.99%	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, 2018

Changes of benefit terms: The PERA Fund COLA and eligibility benefits are found in Appendix C of the actuarial valuation report.

Changes of assumptions: The PERA Annual Actuarial Valuation as of June 30, 2017 report, Appendix B includes a Summary of Actuarial Assumptions and Methods.

See full report at:

<http://www.nmpera.org/assets/uploads/downloads/Schedule-of-Employer-Allocation-for-report-FY17-Edited.pdf>

**State of New Mexico
New Mexico School for the Deaf
REQUIRED SUPPLEMENTARY INFORMATION – RHCA OPEB**

June 30, 2018

**SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
New Mexico Retiree Health Care Authority -RHCA Other Post Retirement Benefits - OPEB
Last 10 Fiscal Years***

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
School's proportion of the net OPEB liability	\$ 10,254,270	-	-	-	-	-	-	-	-	-
School's proportionate share of the net OPEB liability	0.22628%	-	-	-	-	-	-	-	-	-
School's covered-employee payroll	\$ 9,426,027	-	-	-	-	-	-	-	-	-
School's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	108.79%	-	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%	-	-	-	-	-	-	-	-	-

* 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**

REQUIRED SUPPLEMENTARY INFORMATION – RHCA OPEB, CONTINUED

June 30, 2018

**SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S CONTRIBUTIONS
New Mexico Retiree Health Care Authority -RHCA Other Post Retirement Benefits - OPEB
Last 10 Fiscal Years***

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Contractually required contribution	\$ 718,545	-	-	-	-	-	-	-	-	-
Contributions in relation to the contractually required contribution	\$ 360,630	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ 357,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NMSD's covered-employee payroll	\$ 9,426,027	-	-	-	-	-	-	-	-	-
Contributions as a percentage of covered-employee payroll	3.83%	-	-	-	-	-	-	-	-	-

State of New Mexico
The New Mexico School for the Deaf

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – RHCA OPEB

June 30, 2018

Eligibility and Benefits: The RHCA Annual Actuarial Valuation as of June 30, 2017 report, Exhibit II includes eligibility and benefits information found in this report.

Changes in Assumptions: The RHCA Annual Actuarial Valuation as of June 30, 2017 report, Exhibit 1 includes changes in assumptions applicable to information in this report.

See full report at:

http://www.nmrhca.org/uploads/FileLinks/5fccea70107e4b9fa9b1a47723691d2a/NMRHCA_5507316_Final_per_Auditor_update_Final_Report_11.21.17.pdf

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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 17,891,478	\$ 12,387,925	\$ (6,386,498)	\$ (18,774,423)
REVENUES				
State general fund appropriations	4,055,900	4,055,900	4,055,900	-
Land grant permanent funds	13,052,254	13,198,671	13,214,430	15,759
Federal revenue sources	545,000	759,361	767,682	8,321
Joint Powers Agreements	200,000	280,000	228,200	(51,800)
PSFA and severance tax bond proceeds	5,200,000	2,439,243	2,335,669	(103,574)
Other sources	122,400	173,212	211,309	38,097
Total revenues	<u>23,175,554</u>	<u>20,906,387</u>	<u>20,813,190</u>	<u>(93,197)</u>
Revenues per GAAP basis			<u>20,813,190</u>	
EXPENDITURES				
Instruction and general:				
Instruction	4,692,340	5,073,362	4,107,643	965,719
Academic support	3,933,059	4,118,088	4,060,695	57,393
Institutional support	2,807,265	2,720,980	2,717,137	3,843
Operation and maintenance of plant	2,465,276	2,319,844	2,308,472	11,372
Student services	2,578,325	3,157,828	2,878,439	279,389
Public service	1,526,965	1,141,782	984,764	157,018
Capital outlay	5,688,000	3,554,691	3,672,504	(117,813)
Renewals and replacements	125,000	125,000	17,696	107,304
Total instruction and general expenditures	<u>23,816,230</u>	<u>22,211,575</u>	<u>20,747,351</u>	<u>1,464,224</u>
TRANSFERS				
Transfers in	1,200,000	1,047,407	1,618,468	571,061
Transfers out	<u>(1,200,000)</u>	<u>(1,047,407)</u>	<u>(1,618,468)</u>	<u>(571,061)</u>
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	<u>(640,676)</u>	<u>(1,305,188)</u>	<u>65,839</u>	<u>1,371,027</u>
Ending fund balance	<u>\$ 17,250,802</u>	<u>\$ 11,082,737</u>	<u>\$ (6,320,659)</u>	<u>\$ (17,403,396)</u>
Changes in net position (budgetary basis)			\$ 65,839	
Capital outlay - construction in progress			3,208,733	
Capital outlay - equipment, vehicles, etc.			11,925	
Depreciation			(2,314,629)	
Pension Expense			(3,991,247)	
Retiree Health Care Expense			(212,889)	
Change in net position - GAAP basis			<u>\$ (3,232,267)</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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Beginning fund balance	\$ 15,177,291	\$ 7,280,444	\$ 8,303,748	\$ 1,023,304
REVENUES				
PSFA and severance tax bond proceeds	5,200,000	2,439,243	2,335,669	(103,574)
Interest income	-	-	9,474	9,474
Government grants and contracts	25,000	29,835	-	(29,835)
Sales and services	-	-	98,372	98,372
Other sources	-	-	6,877	6,877
Total revenues	<u>5,225,000</u>	<u>2,469,078</u>	<u>2,450,392</u>	<u>(18,686)</u>
EXPENDITURES				
Instruction and general:				
Public service	1,526,965	1,141,782	984,764	157,018
Capital outlay	5,688,000	3,554,691	3,672,504	(117,813)
Renewals and replacements	<u>125,000</u>	<u>125,000</u>	<u>17,696</u>	<u>107,304</u>
Total instruction and general expenditures	<u>7,339,965</u>	<u>4,821,473</u>	<u>4,674,964</u>	<u>146,509</u>
TRANSFERS				
Transfers in	1,200,000	1,047,407	1,618,468	571,061
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers	<u>1,200,000</u>	<u>1,047,407</u>	<u>1,618,468</u>	<u>571,061</u>
Changes in net position (budgetary basis)	<u>(914,965)</u>	<u>(1,304,988)</u>	<u>(606,104)</u>	<u>698,884</u>
Ending fund balance	<u>\$ 14,262,326</u>	<u>\$ 5,975,456</u>	<u>\$ 7,697,644</u>	<u>\$ 1,722,188</u>
Changes in net position (budgetary basis)			\$ (606,104)	
Capital outlay - construction in progress			3,208,733	
Capital outlay - equipment, vehicles, etc.			11,925	
Depreciation			<u>(2,314,629)</u>	
Changes in net position - GAAP basis			<u>\$ 299,925</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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Beginning fund balance	\$ 2,475,925	\$ 4,839,688	\$ (14,894,530)	\$ (19,734,218)
REVENUES				
State general fund appropriations	4,055,900	4,055,900	4,055,900	-
Land grant permanent funds	13,052,254	13,198,671	13,214,430	15,759
Other sources	<u>122,400</u>	<u>173,212</u>	<u>96,586</u>	<u>(76,626)</u>
Total revenues	<u>17,230,554</u>	<u>17,427,783</u>	<u>17,366,916</u>	<u>(60,867)</u>
EXPENDITURES				
Instruction and general:				
Academic support	3,933,059	4,118,088	4,060,695	57,393
Instruction	3,828,161	4,063,836	3,165,865	897,971
Institutional support	2,807,265	2,720,980	2,717,137	3,843
Operation and maintenance of plant	2,465,276	2,319,844	2,308,472	11,372
Student services	<u>2,578,325</u>	<u>3,157,828</u>	<u>2,878,439</u>	<u>279,389</u>
Total instruction and general expenditures	<u>15,612,086</u>	<u>16,380,576</u>	<u>15,130,608</u>	<u>1,249,968</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	<u>(1,200,000)</u>	<u>(1,047,407)</u>	<u>(1,618,468)</u>	<u>(571,061)</u>
Total transfers	<u>(1,200,000)</u>	<u>(1,047,407)</u>	<u>(1,618,468)</u>	<u>(571,061)</u>
Changes in net position (budgetary basis)	<u>418,468</u>	<u>(200)</u>	<u>617,839</u>	<u>618,039</u>
Ending fund balance	<u>\$ 2,894,393</u>	<u>\$ 4,839,488</u>	<u>\$ (14,276,691)</u>	<u>\$ (19,116,179)</u>
Changes in net position (budgetary basis)			\$ 617,839	
Pension Expense (ERB)			(3,991,247)	
Retiree Health Care Expense (OPEB)			(212,889)	
Changes in net position - GAAP basis			<u>\$ (3,586,297)</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Beginning fund balance	\$ 238,262	\$ 267,793	\$ 204,284	\$ (63,509)
REVENUES				
Federal revenue sources	520,000	729,526	767,682	38,156
Joint powers agreements	<u>200,000</u>	<u>280,000</u>	<u>228,200</u>	<u>(51,800)</u>
Total revenues	<u>720,000</u>	<u>1,009,526</u>	<u>995,882</u>	<u>(13,644)</u>
EXPENDITURES				
Instruction and general:				
Instruction	864,179	1,009,526	941,778	67,748
Public service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total instruction and general expenditures	<u>864,179</u>	<u>1,009,526</u>	<u>941,778</u>	<u>67,748</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position (budgetary basis)	<u>(144,179)</u>	<u>-</u>	<u>54,104</u>	<u>54,104</u>
Ending fund balance	<u>\$ 94,083</u>	<u>\$ 267,793</u>	<u>\$ 258,388</u>	<u>\$ (9,405)</u>
Changes in net position (budgetary basis)			\$ 54,104	
Capital outlay - equipment, vehicles, etc.			<u>-</u>	
Changes in net position - GAAP basis			<u>\$ 54,104</u>	

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

SCHEDULE OF RESTRICTED AND UNRESTRICTED CASH AND INVESTMENTS

June 30, 2018

	<u>First National Bank of Santa Fe</u>	<u>State Treasurer's Office</u>	<u>Total</u>
RESTRICTED AND UNRESTRICTED CASH			
Operational checking	\$ 7,759,566	\$ -	\$ 7,759,566
Less outstanding checks	(630,130)	-	(630,130)
Plus petty cash	2,150	-	2,150
	<u> </u>	<u> </u>	<u> </u>
Total restricted and unrestricted cash, net of overdrafts	<u>\$ 7,131,586</u>	<u>\$ -</u>	<u>\$ 7,131,586</u>
INVESTMENTS			
Certificate of deposits	\$ 340,909	\$ -	\$ 340,909
Local government investment pool	-	6,155,446	6,155,446
	<u> </u>	<u> </u>	<u> </u>
Total investments	<u>\$ 340,909</u>	<u>\$ 6,155,446</u>	<u>\$ 6,496,355</u>

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

SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS

June 30, 2018

	First National Bank of Santa Fe <hr/>		
Total bank balance - demand deposits	\$ 7,759,566		
Less FDIC coverage	<u>(250,000)</u>		
Uninsured balance of demand deposits	7,509,566		
Total bank balance - time and savings deposits	340,909		
Less FDIC coverage	<u>(250,000)</u>		
Uninsured balance of time and savings deposits	<u>90,909</u>		
Total uninsured bank balance	<u>7,600,475</u>		
Collateralization requirement (50%)	3,800,238		
 Pledged securities (fair value):			
Type	Cuspid #		
Maturity Date			
FNR 2014-65 DV	CUSIP# 3136AK6G3	01/25/26	2,103,886
FHR 3996 BA	CUSIP# 3137ALSNO	02/15/27	1,212,697
FHR 4305 MA	CUSIP# 313788787	08/15/38	1,817,458
FNMA Pool #MA 1059	CUSIP# 31418AE95	05/01/32	<u>4,621,161</u>
			9,755,202
Amount over collateral requirement			<u><u>\$ 5,954,964</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, 2018

<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	\$ -	\$ 1,535,576	\$ 20,000	\$ 1,555,576	\$ 444,424	\$ -
<u>Severence Tax Bond Proceeds</u>														
Delgado Hall Renovation	STB15A 15-0225	Ch 3 Sec 10	2015	6/30/2019	\$ 130,000	\$ 130,000	\$ -	\$ 130,000	\$ 49,377	\$ 38,727	\$ -	\$ 88,104	\$ 41,896	\$ -
					<u>\$ 2,130,000</u>	<u>\$ 2,130,000</u>	<u>\$ -</u>	<u>\$ 2,130,000</u>	<u>\$ 49,377</u>	<u>\$ 1,574,303</u>	<u>\$ 20,000</u>	<u>\$ 1,643,680</u>	<u>\$ 486,320</u>	<u>\$ -</u>

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

SCHEDULE OF JOINT POWERS AGREEMENTS

June 30, 2018

- 1) Participant: Albuquerque Public Schools (APS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/17-6/30/18
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$54,200
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: 7/1/17-6/30/18
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$14,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: LCPS & NMSD

- 3) Participant: Rio Rancho Public Schools (RRPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/17-6/30/18
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: RRPS & NMSD

- 4) Participant: Santa Fe Public Schools (SFPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/17-6/30/18
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$82,500
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, 2018

- 5) Participant: Farmington Public Schools (FPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: **7/1/17-6/30/18**
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: Central Consolidated Schools (CPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/17-6/30/18
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$15,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: CPS & NMSD

- 7) Participant: Las Vegas Public Schools (LVPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/17-6/30/18
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, 2018

- 8) Participant: Belen Consolidated District Schools (BCDS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/17-6/30/18
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
- 9) Participant: Department of Health (DOH)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/17-6/30/18
Total estimated amount of project: \$25,000
Amount agency contributed in the fiscal year: \$19,745
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, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 3, 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, 2018, 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 material weaknesses and 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a significant deficiency.

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 2017-004, 2017-005, 2017-008, 2017-009, 2018-002, and 2018-003.

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
December 3, 2018

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

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2018

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? Yes

Significant deficiencies identified not considered to be material weaknesses? Yes

Noncompliance material to financial statements: No

PRIOR YEAR FINDINGS

2017-001 Entity Level Controls over Financial Reporting	Repeated and Modified
2017-002 Review and Approval of Journal Entries	Resolved
2017-003 Timeliness of Deposits	Resolved
2017-004 Purchase Requisitions and Payment Authorizations	Repeated and Modified
2017-005 Travel and Per Diem	Repeated and Modified
2017-006 Employment Requirements	Resolved
2017-007 Procurement Policies and Procedures	Resolved
2017-008 Expenditures in Excess of Budget	Repeated and Modified
2017-009 Late Filing of Audit Report	Repeated and Modified
2017-010 Non-Compliance with Government Conduct Act	Resolved

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2018

FINDINGS – FINANCIAL AUDIT:

2017-001 ENTITY LEVEL CONTROLS OVER FINANCIAL REPORTING (REPEATED AND MODIFIED) (MATERIAL WEAKNESS)

CONDITION

We noted there was an absence of controls, including the effective monitoring of accounts that impacted the accuracy of financial reporting. Progress was not made by management in resolving this finding in FY18.

The following items were noted during our testwork:

- A \$32,000 accounts receivable account balance had seven journal entries related to the transaction and the ending balance was inaccurate, cash was overstated and accounts receivable was understated. An adjustment was recorded to correct the balances.
- A \$31,415 accounts receivable account balance had six entries related to the transaction and the ending balance was inaccurate, cash was understated and accounts receivable was overstated of accounts receivable. An adjustment was recorded to correct the balances.
- \$119,607 was incorrectly recorded causing an understatement of accounts receivable and revenue. An adjustment was recorded to correct the balances.
- There was an unlocated difference of \$1,084 in cash at June 30, 2018 due to some of the items listed above. This also raises a concern about the integrity of the cash reconciliation, which balanced with these errors included.

Progress was not made by management in resolving this finding in FY18.

CRITERIA

The School's management is responsible for establishing and maintaining internal controls that include controls for generally accepted accounting principles (GAAP) basis financial statement issued by the School.

EFFECT

The School's internal controls over financial reporting at the financial statement level do not appear adequate to ensure that misstatement would be prevented and/or detected.

CAUSE

Lack of understanding of non-routine journal entries.

RECOMMENDATION

We recommend that the School evaluate all aspects of the financial close and reporting process and establish effective internal controls and procedures to ensure accurate, timely financial statements. We recommend the School consider contracting with an independent certified public accountant to assist the staff with the financial close process.

MANAGEMENT RESPONSE

This is related to adjusting entries in accounts receivable and cash. The Director of Finance will be reviewing and developing adjusting entry guidelines and implementing stricter internal controls. NMSD will also be contracting with a CPA firm for consultation.

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – FINANCIAL AUDIT, CONTINUED:

2018-001 IMPROPER SEGREGATION OF DUTIES (SIGNIFICANT DEFICIENCY)

CONDITION

During our testwork of internal controls, we noted that the School’s process did not have segregation of duties between Human Resources (HR) and payroll functions. Two employees have access to input employees in the system, including updating or inputting rates, processing payroll, and distributing / mailing paychecks.

CRITERIA

The Committee of Sponsoring Organization, COSO, internal control framework is recognized as the leading guidance for designing, implementing and conducting internal control and assessing its effectiveness. In an “effective” internal control system, five components work to support the achievement of an entity's mission, strategies and objectives. These five elements are known as control environment, risk assessment, control activities, information, and communication and monitoring.

A control activity in an effective internal control environment for payroll is segregation of duties between HR and payroll functions. One individual should not control two or more responsibilities. Responsibilities include the following four functions:

- Authorization – approval of new hires, pay rates, signing checks
- Custody – access to payroll checks / bank accounts, mailing or delivering checks
- Record Keeping – preparing source documents, maintaining journals
- Reconciliations – preparing bank reconciliations

EFFECT

The School may lack adequate internal controls necessary to safeguard assets and prevent or detect intentional or unintentional misstatements of accounting information. The School’s control environment may allow to fraud occur.

CAUSE

Lack of understanding or training in the concept of segregation of duties as a proper control environment and fraud prevention mechanism.

RECOMMENDATION

We recommend that the School reevaluate their employee’s duties to ensure that proper segregation of duties exists between HR and payroll.

MANAGEMENT RESPONSE

In 2017 management conducted a comprehensive payroll workflow analysis of each step from beginning to end. It was determined that NMSD’s payroll process was overtly complicated and posed tremendous risk to the organization especially because there was only one individual processing payroll. Since then, NMSD has taken steps to safeguard and better manage the payroll process. NMSD hired a second payroll professional to ensure that no one person had control over all part of the payroll process.

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – FINANCIAL AUDIT, CONTINUED:

MANAGEMENT RESPONSE – 2018-001, CONTINUED

After the issue was raised by the recent audit concerning the segregation of duties between both payroll professionals, management instituted the following measures to improve the internal controls of the payroll process.

- Segregation of Duties: The Payroll/Benefits Administrator will prepare payroll, and the HR Generalist/Payroll will review the payroll. The HR Generalist/Payroll will verify that the payroll is accurate by reviewing the final **Time Card Edit** report that shows new hires, changes, deductions, leave, etc.
- The information will be verified with the PAN and Contract to ensure that payments are approved. This method of verification will be use until NMSD’s payroll vendor develops an **Exception Report** to compare to the **Time Card Edit report**.
- Once the final **Time Card Edit** report is verified, the HR Generalist/Payroll will sign the payroll authorization document allowing the Payroll/Benefits Administrator to process payroll.
- After payroll is processed, the totals from the Payroll Register will be compared to the **Time Card Edit** report by the HR Generalist/Payroll and the Director of Human Resources. Both individuals will sign verifying that the totals match.
- Additional safeguard measures: The Director of will perform ongoing audits of the Payroll workflow and update Jenzabar payroll software as it becomes available.
- NMSD will continue to shift from manual payroll processes to automated functions that improve accuracy, efficiency, and speed of payroll operations.
- NMSD will shift away from hard checks to direct deposit and pay cards to eliminate the risk of payroll check fraud.
- Implement quarterly audit of payroll by a third party CPA firm.

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – (COMPLIANCE) PER SECTION 12-6-5 NMSA 1978:

2017-004 PURCHASE ORDERS AND PAYMENT AUTHORIZATION (REPEATED AND MODIFIED) (OTHER NON-COMPLIANCE)

CONDITION

During our testwork of 40 cash disbursements we identified the following:

- One out of 40 disbursements, totaling \$2,038, did not contain a purchase order.

Progress was made by management in this area with employee training and updating of policies and procedures.

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."

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

The School's policies and procedures were not consistently followed.

RECOMMENDATION

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

MANAGEMENT RESPONSE

The Director of Finance will be producing videos, not only on this policy, but other NMSD policies related to the business office operations and they will be stored into the school's Intranet for staff's review as a part of their training. The videos will also be used during orientation week and whenever a new employee is hired. They will be captioned and voice carried over so they will meet the needs of all employees.

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

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – (COMPLIANCE) PER SECTION 12-6-5 NMSA 1978 - CONTINUED:

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

CONDITION

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

- One of 10 reimbursements items tested was an actual cost reimbursement for travel totaling \$228 which required but did not include the Superintendent's actual cost pre-approval.

Progress was made by management in this area with the employee training and updating of policies and procedures.

CRITERIA

School Policy #345.9 Travel and Per Diem requires advance approval from the Superintendent prior to making travel arrangements if an employee chooses actual cost reimbursement. This is also in accordance with 2.42.2.9 NMAC.

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.

RECOMMENDATION

We recommend that the School provide training to the staff on NM statutes and internal procurement policies and procedures to ensure that staff obtain prior approval from the superintendent for actual cost reimbursement for travel and per diem.

MANAGEMENT RESPONSE

Temporarily, pre-approval of actuals will be required by email until the new system will be in place. The Director of Finance and Superintendent will approve the pre-travel requests. The NMSD Business Office plans to work with IT to develop a pre-approval travel actuals system and implement the system in January 2019.

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SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – (COMPLIANCE) PER SECTION 12-6-5 NMSA 1978 - CONTINUED:

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

CONDITION

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

- Capital Outlay Funds \$117,813

Progress was made in this area. Budget overages in FY 2018 were caused by vendor invoices for construction in progress, which were submitted and accrued in late September after the deadline for submitting budget adjustments.

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

Noncompliance with the New Mexico Administrative Code regarding budgetary control.

CAUSE

Expenditures were approved for payment when budgeted funds were not available and 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.

MANAGEMENT RESPONSE

This is related to capital outlay funds. When PSFA is involved with NMSD’s capital projects, it becomes challenging when it comes to determining the budget. The last time NMSD was in excess of budget within the capital outlay funds was when PSFA was first involved with Dillon Hall Phase I Improvements, which included the basement and the new library.

During FY18, PSFA was involved with the Cartwright Hall project and the budget developed was based on actuals as of February 2018 and a four-month forecast before the budget was submitted to HED in May 2018. Since NMSD has no control over how PSFA manages the expenditures of this project, predicating the outcome is challenging.

The Cartwright Hall project will be completed by the spring of FY19 and there should be no excess of the budget at the end of the fiscal year.

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SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – (COMPLIANCE) PER SECTION 12-6-5 NMSA 1978 - CONTINUED:

**2017-009 LATE FILING OF AUDIT REPORT (REPEATED AND MODIFIED)
(OTHER NON-COMPLIANCE)**

CONDITION

The School's audit report for fiscal year 2018 was not submitted to the Office of the State Auditor by November 1, 2018. Progress was made in this area. Management is expected to resolve this in FY 2019.

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 experienced difficulties with reconciling adjustments and provided by client schedules.

RECOMMENDATION

We recommend that the School have all adjustments posted and reconciliations complete prior to the start of the audit. This will help ensure a more efficient audit process.

MANAGEMENT RESPONSE

Again, this is related to adjusting entries. The Director of Finance will be reviewing and developing adjusting entry guidelines and implementing stricter internal controls. NMSD will also be contracting with a CPA firm for consultation.

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SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – (COMPLIANCE) PER SECTION 12-6-5 NMSA 1978 - CONTINUED:

2018-002 STALE DATED WARRANTS / UNCLAIMED PROPERTY (OTHER NONCOMPLIANCE)

CONDITION

During our testwork of cash, we noted 32 checks totaling \$5,883 were staled dated because they were greater than one year old were voided and reversed back to the School's cash account.

CRITERIA

Per Section 7.8A NMSA, unclaimed property must be paid to the State of New Mexico Taxation and Revenue Department (TRD). Unclaimed property includes but is not limited to such items as money, un-cashed checks, drafts, state warrants, un-cashed payroll checks, interest dividends or income, savings and checking accounts, safe deposit box context, credit balances, customer overpayments, unidentified remittances, mutual funds and securities.

EFFECT

The School does not appear to be in compliance with State statute. Vendors and employees may be unaware that they have unclaimed property.

CAUSE

The School does not appear to have been aware of the State statute.

RECOMMENDATION

We recommend the School develop a process to report and remit unclaimed property to TRD. The School should also provide training to employees regarding unclaimed property statutes.

MANAGEMENT RESPONSE

The Director of Finance/CPO will review Article 7-8A Uniform Unclaimed Property Act and meet with staff to develop guidelines and practices, and implement a system to ensure money owed to customers and staff in terms of wages is transferred to the NM Revenue and Taxation Department as unclaimed property.

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SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

FINDINGS – (COMPLIANCE) PER SECTION 12-6-5 NMSA 1978 - CONTINUED:

2018-003 OVERTIME NOT PROPERLY APPROVED (OTHER NONCOMPLIANCE)

CONDITION

During our payroll testwork, we noted one transaction out of 25 tested did not have their overtime pre-approved for overtime pay of \$251.63.

CRITERIA

The School's Policy No. 243 states that overtime must be pre-approved by the employee's direct supervisor and authorized by the Superintendent or his/her designee.

EFFECT

Non-compliance with School's overtime approval policy.

CAUSE

Several employees perform multiple tasks that cause overtime. Supervisors may not always be aware of overtime worked by employees making it difficult to provide pre-approval.

RECOMMENDATION

We recommend that the School improve the overtime approval process. Employees should also be trained and held accountable for ensuring that proper pre-approvals are obtained.

MANAGEMENT RESPONSE

After Management investigated the overtime issue, it was identified that there are emergency or unavoidable circumstances that cause this to occur. To account for these circumstances, the Overtime Policy was revised to permit employees to work overtime without the prior approval. During these unavoidable circumstances, the employee must notify their immediate supervisor as soon as possible but not to exceed three working days after having accrued overtime hours to be approved for overtime.

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EXIT CONFERENCE

June 30, 2018

An exit conference was held at the New Mexico School for the Deaf campus on December 3, 2018, with the following individuals in attendance:

New Mexico School for the Deaf

Nathan Gomme

Mark Apodaca

Rosemary Gallegos

Rick Garcia

Board President

Director of Finance

Superintendent

Director of Human Resources

Office of the State Auditor

C. Jack Emmons, CPA, CFE

Lynette Kennard, CPA, CGFM

Liza Kerr, CPA, CISA

Kusum Adhikari

Antonio Baca, CPA

Deputy State Auditor

Financial Audit Director

Audit Manager

Senior Auditor

Senior Auditor

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.