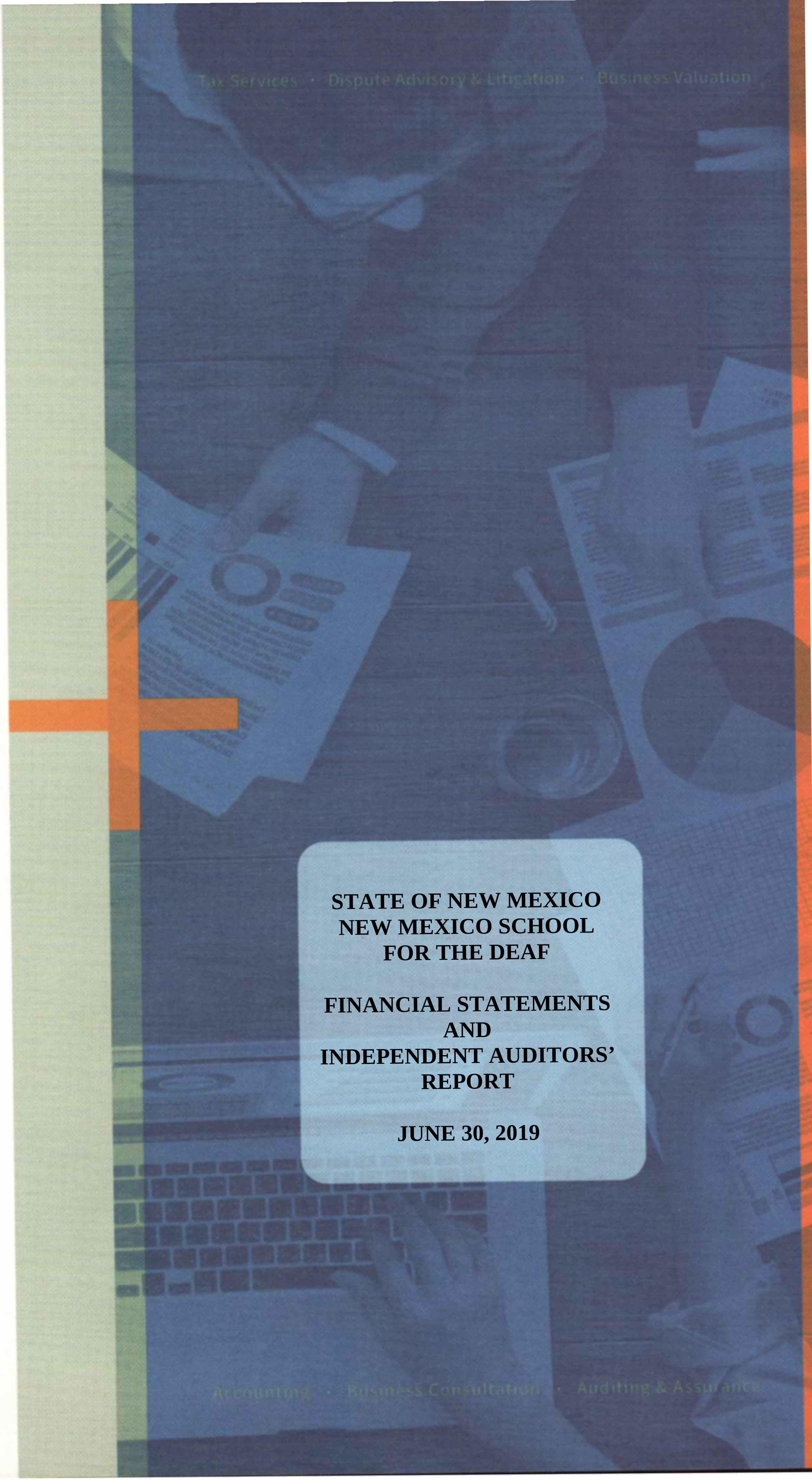
RICCI & COMPANY

Service plus value, it all adds up.

6200 Uptown Blvd., NE Suite 400

Albuquerque, NM 87110

505 338 0800 *office* riccicpa.com



STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2019

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF

TABLE OF CONTENTS

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF

TABLE OF CONTENTS (CONTINUED)

INTRODUCTORY SECTION

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF

BOARD OF REGENTS

June 30, 2019

Executive Office	
Mr. Nathan Gomme	President
Ms. Lyann Barbero	Vice-President
Mr. Ted Berridge	Secretary/Treasurer
Ms. Eugenia M. Kincaid	Member
Mr. John Robertson	Member
Administration	
Dr. Rosemary Gallegos	Superintendent
Mr. Mark Apodaca	Director of Finance/Chief Procurement Officer
Ms. Joanne Corwin	Director of Early Intervention & Involvement
Mr. Roddy Cabbage	Director of Student Affairs
Ms. Cynthia Huff	Director of Educational Consultation Statewide
Mr. Rick Garcia	Director of Human Resources
Dr. Jennifer Herbold	Director of Instruction

FINANCIAL SECTION

1030 18th Street NW
Albuquerque, NM 87104
505 338 0800 *office* www.riccicpa.com

Independent Auditors' Report

The Board of Regents
New Mexico School for the Deaf
and
Brian S. Colón, Esq.
New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the New Mexico School for the Deaf (the School or NMSD) as of and for the year ended June 30, 2019, 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, 2019, 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.

Auditors' 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, 2019 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, 2019, referenced as schedules in the supplementary section in conformity with the budgetary basis of accounting more fully described in Note 2, 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 2, 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, 2019, 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 schedules on pages 59 through 54, and other post-employment benefits schedules on pages 65 through 67 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 introductory section, and the other supplementary information as listed in the table of contents as required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information required by Section 2.2.2 NMAC is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 other supplementary information required by Section 2.2.2 NMAC is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019 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.

Ricci & Company, LLC

Albuquerque, New Mexico
October 24, 2019

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

June 30, 2019

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 its 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 FY2019, total assets increased by 6.0% or $3,934,508 over FY2018. Current assets, which include cash, cash equivalents, short-term investments, accounts receivable and inventories, increased by 8.3% or $829,805 while noncurrent assets, which includes restricted cash and cash equivalents and capital assets (buildings, equipment, and property) increased by 5.6% or $3.104,703 from the previous fiscal year.

For liabilities, total liabilities increased by 6.3% or $2,858,740. This was due to current liabilities (accounts payable, accrued compensated absences, and payroll taxes) increasing by 20.5% or $278,456 from FY2018 and noncurrent liabilities, which includes accrued compensated absences, net pension liability and other post retirement benefits, and deposits from students, increased by $2,580,284 or 5.9% from FY2018.

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Net Position – Continued

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, 2019, net position increased by 5.3% or $1,334,833 from FY2018.

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, 2019, net position increased by 5.3% or $1,334,833 from FY2018.

		FY2019		FY2018
ASSETS				
Current Assets	$	10,871,051	$	10,041,246
Noncurrent Assets		58,385,972		55,281,269
Total Assets	$	69,257,023	$	65,322,515
Deferred Outflows of Resources	$	8,666,410	$	8,513,326
Total Assets and Total Deferred Outflows of Resources	$	77,923,433	$	73,835,841
LIABILITIES				
Current Liabilities	$	1,633,923	$	1,355,467
Noncurrent Liabilities	$	46,514,871		43,934,587
Total Liabilities	$	48,148,794	$	45,290,054
Deferred Inflows of Resources	$	3,402,988	$	3,508,969
NET POSITION				
Net Investment in Capital Assets	$	55,334,662	$	50,577,842
Restricted - Expendable for:				
Other Programs		4,214,105		4,703,427
Scholarships		453,172		288,816
Special Events		-		22,024
Unrestricted (Deficit)		(33,630,288)		(30,555,291)
Total Net Position	$	26,371,651	$	25,036,818
Total Liabilities and Net Position	$	77,923,433	$	73,835,841

FINANCIAL HIGHLIGHTS – CONTINUED

<u>Statement of Revenues, Expenses, and Changes in Net Position</u>

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.

Operating Revenues

Total Operating Revenues for FY2019 was $1,170,614, an increase of 3.6% from FY2018. While other revenues were more in FY2019 than FY2018, federal grants and contracts revenue and joint powers agreements revenues were both 4.6% less in FY2019 than FY2018, respectively. Other operating revenues include income from rentals, cafeteria, auditorium, interpreter week, interpreting services and other miscellaneous income.

Federal grants and contracts cover funds from Navajo Nation, IDEA-B, and Medicaid. As for the JPA, NMSD received 4.6% less in funds from public schools in FY2019 than in FY2018. Most of the funds came from the Albuquerque Public Schools and Santa Fe Public Schools followed by several other public school districts.

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

June 30, 2019

FINANCIAL HIGHLIGHTS – CONTINUED

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

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 FY2019, the school's operating expenses were $22,996,830 and about 4.4% less than FY2018. Instruction and General covers academic support, instruction, student services, institutional support and operation and maintenance of the plant. During FY2019, $13,237,146 covered costs associated to students (instruction, academic support, and student support) which was 24.0% more than FY2018. However, of the total Instruction and General costs for FY2019, 57.6% covered instruction, academic support and student support. The rest (42.4%) covered institutional support and operation and maintenance of the plant.

Non-operating Revenues

Revenues from land and permanent fund and state appropriations make up 72.2% of NMSD's total revenues (operating and non-operating). During FY2019, NMSD received $13,954,021 from the state's land and permanent funds and $4,113,000 from state appropriations. Revenues from the land and permanent fund were 5.6% more than FY2018 while appropriations for FY2019 were only 1.4% more than FY2018.

Interest income was earned from the school's investments in certificate of deposits and local government investment pool (LGIP). The school has CDs with the Sunflower Bank and LGIP is managed by the New Mexico State Treasurer's Office. The balance as of June 30, 2019 for NMSD's CD and LGIP accounts was $345,778 and $6,290,215 respectively.

Capital Items

During FY2019, NMSD was involved with the final stages of two capital projects planning involving Delgado and Cartwright Halls. The funds were covered by the Public Schools Facility Authority (PSFA) (Cartwright Hall) and by general obligation and severance tax bonds. Total capital project costs during FY2019 were $6,615,295.

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

June 30, 2019

FINANCIAL HIGHLIGHTS – CONTINUED

	2019	2018	Variance	Percent Change
OPERATING REVENUES				
Federal grants and contracts	$ 732,237	$ 767,681	$ (35,444)	-5%
Other operating revenues	220,627	133,905	86,722	65%
Joint powers agreements	217,750	228,200	(10,450)	-5%
Total operating revenues	1,170,614	1,129,786	40,828	4%
OPERATING EXPENSES				
Instruction	5,810,144	7,370,001	(1,559,857)	-21%
Academic support	4,389,609	4,058,480	331,129	8%
Operation and maintenance of plant	3,267,471	2,778,016	489,455	18%
Student services	3,037,393	2,932,879	104,514	4%
Institutional support	2,773,525	2,717,137	56,388	2%
Depreciation	1,793,397	2,314,629	(521,232)	-23%
Outside contracts and grants	1,925,291	1,874,315	50,976	3%
Total operating expenses	22,996,830	24,045,457	(1,048,627)	-4%
Net operating loss	(21,826,216)	(22,915,671)	1,089,455	-5%
NON-OPERATING REVENUES				
Land and permanent fund income	13,954,021	13,214,430	739,591	6%
State appropriations	4,113,000	4,055,900	57,100	1%
Gain (loss) on disposal of capital assets	(43,028)	74,358	(117,386)	-158%
Investment income	140,746	3,047	137,699	4519%
Total operating revenues	18,164,739	17,347,735	817,004	5%
Change in net position before capital items	(3,661,477)	(5,567,936)	1,906,459	-34%
CAPITAL ITEMS				
Bond proceeds appropriations	1,097,366	939,111	158,255	17%
Facility administration	3,898,944	1,396,558	2,502,386	179%
Total capital items	4,996,310	2,335,669	2,660,641	114%
Change in net position	1,334,833	(3,232,267)	4,567,100	-141%
NET POSITION				
Net position, beginning of year	25,036,818	40,449,525	(15,412,707)	-38%
Restatement (GASB 75)	-	(12,180,440)	12,180,440	
Net position, end of year	$ 26,371,651	$ 25,036,818	$ 1,334,833	5%

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Cash Flows

NMSD ended FY2019 with a cash and restricted cash equivalent balance of $6,956,932. 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:

	FY2019	FY2018	Net Increase (Decrease)	Percent
CASH FLOWS FROM OPERATING ACTIVITIES				
Grants and contracts received	$ 982,336	$ 961,026	$ 21,310	2.2%
Payments to suppliers	(4,205,219)	(2,237,433)	(1,967,786)	87.9%
Payments to employees and benefits	(14,398,105)	(14,512,845)	114,740	-0.8%
Other revenues	220,627	(15,035)	235,662	-1567.4%
Net cash used in operating activities	$ (17,400,361)	$ (15,804,287)	$(1,596,074)	10.1%

During FY2019, net cash used in operating activities totaled $17,400,361 which was $1,596,074 or 10.1% more compared to FY2018. The cash covered staff salaries, benefits, and operating costs such as supplies, travel, and professional services.

The next category covers non-capital financing activities. This basically covers state appropriations and the land and permanent funds. Cash inflow decreased in FY2019 by $180,055 or 1.0% from FY2018.

	FY2019	FY2018	Net Increase (Decrease)	Percent
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	$ 4,113,000	$ 4,055,900	$ 57,100	1.4%
Land and permanent fund income	13,954,021	14,191,176	(237,155)	-1.7%
Net cash provided by noncapital financing actitivies	$ 18,067,021	$ 18,247,076	$ (180,055)	-1.0%

FINANCIAL HIGHLIGHTS – CONTINUED

Statement of Cash Flows - Continued

Cash flows from capital related financing activities cover capital outlays which includes capital projects, vehicles, and technology. During FY2019, revenues from severance tax bond proceeds increased by $968,829 or 107.0% from FY2018. Because of the completion of Cartwright and Dillon Halls, purchases, construction and renovation of capital assets was $2,716,351 compared to $1,824,102 for FY2018.

	FY2019	FY2018	Net Increase (Decrease)	Percent
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES				
Severence tax bond proceeds	$ 1,873,929	$ 905,100	$ 968,829	107.0%
Purchases, construction, and/or renovation of capital assets	(2,716,351)	(1,824,102)	(892,249)	48.9%
Net cash (used in) provided by financing activities	$ (842,422)	$ (919,002)	$ 76,580	-8.3%

The last category covers cash flows from investing activities. During FY2019, net cash increased by only $1,108. This category involves NMSD's investments in the Local Government Investment Pool which is managed by the New Mexico State Treasurer's Office and CD's held with First National 1870.

	FY2019	FY2018	Net Increase (Decrease)	Percent
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	$ 140,746	$ 74,357	$ 66,389	89.3%
Proceeds from sale of equipment	-	3,047	(3,047)	-100.0%
Purchase of investments	(139,638)	(72,747)	(66,891)	92.0%
Net cash provided by investing activities	$ 1,108	$ 4,657	(3,549)	-76.2%

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

BUDGET COMPARISONS

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

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

BUDGET COMPARISONS – CONTINUED

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 FY2019. Schedules 2 through 4 are covered here.

Unrestricted Non-Instruction and General

This schedule covers capital outlays and the Educational Consultation Training (ECT) department (formerly the School's Outreach department). The capital projects included the funding and construction costs of Delgado and Cartwright Halls. Capital outlays also included technology and vehicle purchases. Funding for capital projects came from General Obligation Bonds (GOB), Severance Tax Bonds (STB0 and Public School Facility Authority (PSFA).

	Final Budget	Actual	Favorable (Unfavorable)
Beginning Fund Balance	$ 5,975,456	$ 7,697,644	$ 1,722,188
Revenues			
PSFA, GOB and STB Proceeds	$ 6,847,365	$ 4,996,310	$ (1,851,055)
Investment Income	-	17,520	17,520
Federal Grants and Contracts	-	-	-
Other Sources	-	80,439	80,439
Total Revenues	$ 6,847,365	$ 5,094,269	$ (1,753,096)
Expenditures			
Public Services	$ 1,381,830	$ 1,006,490	$ 375,340
Capital Outlay	8,900,000	3,667,037	5,232,963
Renewal and Replacements	125,000	56,417	68,583
Total Expenditures	$ 10,406,830	$ 4,729,944	$ 5,676,886
Transfers			
Transfers In	$ 1,750,000	$ 1,007,100	$ (742,900)
Transfers Out	(500,000)	-	500,000
Total Transfers	$ 1,250,000	$ 1,007,100	$ (242,900)
Change in Position	$ (2,309,465)	$ 1,371,425	$ (7,672,882)
Ending Fund Balance	$ 3,665,991	$ 9,069,069	$ (5,950,694)

During FY2019, $1,007,100 was transferred from Unrestricted Instruction and General to cover the school's technology needs. The funding will cover expenditures for FY2020, FY2021, and FY2022.

BUDGET COMPARISONS – CONTINUED

Unrestricted Current Funds – Instruction and General

This schedule covers NMSD's instructional operations and its support. For the revenue side, NMSD was final budgeted for $18,077,500 and actuals were $18,350,745. The budget for land and permanent fund was $13,751,000, but actuals stood at $13,954,021, which was favorable at $203,021. However, actuals from state appropriations balanced. Actuals from other sources ended at $77,115, which was $136,385 less than what was budgeted for. On the expenditure side, the final budget was $17,406,012 and actuals were $15,958,148.

The change in position increased by $1,360,497 which will be used to offset the deficit forecasted for FY2020 due to a decrease in the land grant and permanent fund. Some of the funds will also be transferred to Capital Outlays to cover planned vehicle purchases and capital projects during FY2020.

	Final Budget	Actual	Favorable (Unfavorable)
Beginning Fund Balance	$ 4,839,488	$ (14,276,691)	$ (19,116,179)
Revenues			
State General Fund Appropriations	$ 4,113,000	$ 4,113,000	$ -
Land Grant Permanent Funds	13,751,000	13,954,021	203,021
Federal Grants and Contracts	-	83,511	83,511
Investment Income	-	123,098	123,098
Other Sources	213,500	77,115	(136,385)
Total Revenues	$ 18,077,500	$ 18,350,745	$ 273,245
Instruction and General Expenditures			
Instruction	$ 3,767,378	$ 3,497,253	$ 270,125
Academic Support	4,819,810	4,389,609	430,201
Institutional Support	2,986,961	2,773,525	213,436
Operation and Maintenance of Plant	2,626,658	2,260,368	366,290
Student Services	3,205,205	3,037,393	167,812
Total Expenditures	$ 17,406,012	$ 15,958,148	$ 1,447,864
Transfers			
Transfers In	$ 500,000	$ -	$ (500,000)
Transfers Out	(1,750,000)	(1,032,100)	717,900
Total Transfers	$ (1,250,000)	$ (1,032,100)	$ 217,900
Change in Position	$ (578,512)	$ 1,360,497	$ (956,719)
Ending Fund Balance	$ 4,260,976	$ (12,916,194)	$ (20,072,898)

Under the transfers section, $1,032,100 was mostly transferred to Capital Outlays – Technology.

BUDGET COMPARISONS – CONTINUED

Restricted Current Funds – Instruction and General

Schedule 4 covers funds which are restricted for instruction and public services. Under this report, revenues from federal government sources such as IDEA-B, AmeriCorps, and Medicare totaled $648726 which was over the budget by $30,777. Revenues from Joint Partnership Agreements with public schools earned the school $217,750, which was less than the final budget by $17,250.

	Final Budget	Actual	Favorable (Unfavorable)
Beginning Fund Balance	$ 267,793	$ 204,284	$ (63,509)
Revenues			
State Government Grants and Contracts	$ 617,949	$ 648,726	$ 30,777
Joint Powers Agreements	235,000	217,750	(17,250)
Investment Income	-	128	128
Other Sources	-	20,045	20,045
Total Revenues	$ 852,949	$ 886,649	$ 33,700
Instruction and GeneralExpenditures			
Instruction	$ 1,027,949	$ 918,801	$ 109,148
Public Services	-	-	-
Total Expenditures	$ 1,027,949	$ 918,801	$ 109,148
Transfers			
Transfers In	$ -	$ 25,000	$ 25,000
Transfers Out	-	-	-
Total Transfers	$ -	$ 25,000	$ 25,000
Change in Position	$ (175,000)	$ (7,152)	$ (50,448)
Ending Fund Balance	$ 92,793	$ 197,132	$ (113,957)

The net position for Restricted Funds decreased by $7,152. The ending fund balance is $197,132. By the end of FY2020, 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, 2019, the school's net capital assets stood at $55,334,662. This was a net increase of $4,756,820 from FY2018. This was due to increases in the value buildings resulting from the completion of Cartwright and Delgado Halls construction and purchases of vehicles.

	FY2019	FY2018
Buildings	$ 52,655,021	$ 45,281,437
Land and Improvements	1,623,400	1,623,400
Computers & Related Equipment	21,202	-
Art	209,550	209,550
Vehicles	575,787	364,921
Infrastructure	76,430	81,525
Equipment and Furniture	173,272	111,848
Construction in Process	-	2,905,161
	$ 55,334,662	$ 50,577,842

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. There is an increase in demand for services, however, the operating costs are set to outpace the revenues from the land grant, permanent fund, and appropriations in the short future. NMSD believes that the number of children and students will increase, as there will be a greater demand for more services and will need to reevaluate its future financial structure.

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

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF NET POSITION
June 30, 2019

ASSETS		
Current Assets		
Cash and cash equivalents	$	3,905,622
Certificates of deposit		345,778
Local government investment pool		6,290,215
Accounts receivable, net		282,203
Prepaid expense		9,351
Inventories		37,882
Total current assets		10,871,051
Noncurrent assets		
Restricted cash and cash equivalents		3,051,310
Capital assets, net		55,334,662
Total noncurrent assets		58,385,972
Total Assets	$	69,257,023
DEFERRED OUTFLOWS OF RESOURCES		
Pension related		8,379,610
Other post retirement benefits related		286,800
Total Deferred Outflows of Resources	$	8,666,410

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2019

LIABILITIES		
Current liabilities		
Accounts payable	$	528,322
Accrued compensated absences - current portion		213,660
Payroll taxes and fringe benefits - accrued and withheld		891,941
Total current liabilities		1,633,923
Noncurrent Liabilities		
Accrued compensated absences, less current portion		46,595
Deposits from students		162,028
Net pension liability		36,388,520
Net other post retirement benefits		9,917,728
Total noncurrent liabilities		46,514,871
Total Liabilities	$	48,148,794
DEFERRED INFLOWS OF RESOURCES		
Pension related		840,429
Other post retirement benefits related		2,562,559
Total Deferred Inflows of Resources	$	3,402,988
NET POSITION		
Net investment in capital assets		55,334,662
Restricted - expendable for:		
Other programs		4,214,105
Grants and scholarships		453,172
Unrestricted (deficit)		(33,630,288)
Total Net Position	$	26,371,651

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2019

OPERATING REVENUES	
Contracts and grant revenue	
Federal	$ 83,511
Other	648,726
Other revenues	220,627
Joint powers agreements	217,750
Total operating revenues	1,170,614
OPERATING EXPENSES	
Instruction	5,810,144
Academic support	4,389,609
Operation and maintenance of plant	3,267,471
Student services	3,037,393
Instructional support	2,773,525
Depreciation	1,793,397
Outside contracts and grants	1,925,291
Total operating expenses	22,996,830
Net operating loss	(21,826,216)
NON-OPERATING REVENUES (EXPENSES)	
Land and permanent fund income	13,954,021
State general fund appropriations	4,113,000
Investment income	140,746
Loss on disposal of capital assets	(43,028)
Total non-operating revenues	18,164,739
Change in net position before capital items	(3,661,477)
CAPITAL ITEMS	
General obligation revenue bond proceeds	1,041,406
Severance tax bond proceeds	55,960
Public schools facility authority bond proceeds	3,898,944
Total capital items	4,996,310
Change in net position	1,334,833
NET POSITION	
Net position, beginning of year	25,036,818
Net position, end of year	$ 26,371,651

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Federal grants and contract revenues	$ 982,336
Payments to vendors and suppliers	(4,205,219)
Payments to employees and for employee benefits	(14,398,105)
Other receipts (payments)	220,627
Net cash used in operating activities	(17,400,361)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	4,113,000
Land grant permanent fund income	13,954,021
Net cash provided by noncapital financing activities	18,067,021
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITES	
Severance tax and general obligation bond proceeds	1,873,929
Purchases, construction, and/or renovation of capital assets	(2,716,351)
Net cash used in capital and related financing activities	(842,422)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	140,746
Purchase of investments with reinvested interest and dividends	(139,638)
Net cash provided by investing activities	1,108
Net decrease in cash and restricted cash and cash equivalents	(174,654)
Cash and restricted cash and cash equivalents, beginning of year	7,131,586
Cash and restricted cash and cash equivalents, end of year	$ 6,956,932
Included on the Statement of Net Postion as:	
Cash and cash equivalents	$ 3,905,622
Restricted cash and cash equivalents	3,051,310
	$ 6,956,932

The Notes to the Financial Statements are an integral part of this statement.

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended June 30, 2019

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

Net operating loss	$ (21,826,216)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	1,793,397
Change in net pension liability	2,908,498
Change in other post employment benefits liability	(336,542)
Change in deferred outflows of resources	(153,084)
Change in deferred inflows of resources	(105,981)
Changes in assets and liabilities:	
Accounts receivable	32,349
Prepaids	(9,351)
Inventories	9,785
Accounts payable	(474,519)
Accrued liabilities and compensated absences and deposits	757,619
Program advances	3,684
Net cash used in operating activities	$ (17,400,361)

SUPPLEMENTAL SCHEDULES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Capital assets acquired through payments made by Public schools facility authority	$ 3,898,944

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. 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 2. 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.

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.

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,

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Accounting (Continued)

the School's primary institution financial statements have been presented in a single column using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Deferred inflows and deferred outflows of resources are now included in the elements that make up a statement of financial position and GASB Statement No. 63 introduces the term "net position" for reporting the residual of all elements in a statement of financial position.

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 for the School's assets, liabilities, deferred inflows and deferred outflows as applicable, net position, revenues, expenses, changes in net position, and cash flows, and replaced the fund group perspective previously required.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Certain cash, cash equivalents, and investments are designated by the Board of Regents of the School for specific purposes and are reported in the Statement of Net Position as restricted cash and cash equivalents. 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Educational Retirement Board (ERB) and the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from ERB's and PERA's fiduciary net positions have been determined on the same basis as they are reported by ERB and PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Annual and Sick Leave Policies

School policy allows accumulated annual leave for individuals employed by the School to be paid upon termination. The maximum 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.

Other Accrued Liabilities

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

Net Position

The School's net positions are classified as follows:

<u>Invested in capital assets</u>

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 in the year ended June 30, 2019.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

Restricted net position – expendable

Restricted expendable net position includes resources which the School is obligated to spend in accordance with restrictions imposed by external third parties. Restrictions imposed on asset use can be imposed by creditors) such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation, which includes a legally enforceable requirement that the resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party to use resources created by enabling legislation only for purposes specified by the legislation. The amount of net position restricted by enabling legislation and the amount of restricted net position from State sources are both $0 at June 30, 2019. The amount of expendable net position is $453,172 at June 30, 2019.

Restricted net position – nonexpendable

Nonexpendable restricted net position consists 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, 2019.

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.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues

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

<u>Operating revenues</u>

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.

<u>Non-operating revenues</u>

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.

Classification of Expenses

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

<u>Operating expenses</u>

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.

<u>Non-operating expenses</u>

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 $4,113,000 for fiscal year 2019, The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2019.

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.

Use of Estimates

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 3 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 at June 30, 2019 (book balances), was $6,956,932. The School's investment in the LGIP and certificates of deposits combined book balances was $6,635,993. Restricted and unrestricted cash and certificates of deposit in the amount of $7,375,075 were 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	6,875,075
Uninsured and uncollateralized	-
Total deposits	$ 7,375,075

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, 2019, the School's deposits were fully insured or collateralized. See the Schedule of Pledged Collateral Requirements on page 73.

NOTE 3. CASH, INVESTMENT IN LOCAL GOVERNMENT INVESTMENT POOL (CONTINUED)

Custodial Credit Risk – Deposits (Continued)

The remaining balance of $6,290,215 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 the necessary criteria to elect to measure all of the investments in LGIP at amortized cost. LGIP is not SEC registered. Section 610-10 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, 2019, the New Mexico LGIP was AAAm rated, WAM (R) was 35 days and the WAM (F) was 112 days.

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 State Treasurer's Office

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 4. 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, 2019 were as follows:

Asset Description	Balance June 30, 2018	Additions	Deletions / Adjustments	Transfers	Balance June 30, 2019
Non-depreciable					
Construction in progress	$ 2,905,161	5,711,441	-	(8,616,602)	$ -
Land and improvements	1,623,400	-	-	-	1,623,400
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	68,495,842	484,627	(919,802)	8,616,602	76,677,269
Equipment and furniture	610,256	90,922	20	-	701,198
Computers	93,831	21,202	30	-	115,063
Automotive equipment	1,465,491	307,103	-	-	1,772,594
Infrastructure	127,382	-	-	-	127,382
Total Capital assets	$ 75,530,913	6,615,295	(919,752)	-	$ 81,226,456
Accumulated depreciation					
Buildings	$ (23,214,405)	(1,662,567)	854,724	-	$ (24,022,248)
Equipment and furniture	(498,408)	(29,498)	(20)	-	(527,926)
Computers	(93,831)	-	(30)	-	(93,861)
Automotive equipment	(1,100,570)	(96,237)	-	-	(1,196,807)
Infrastructure	(45,857)	(5,095)	-	-	(50,952)
Total accumulated depreciation	(24,953,071)	(1,793,397)	854,674	-	(25,891,794)
Total net capital assets	$ 50,577,842	4,821,898	(65,078)	-	$ 55,334,662

Depreciation expense was $1,793,397 for the year ended June 30, 2019.

NOTE 5 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 $46,532 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,		Amount
2020	$	42,496
2021		20,786
2022		17,533
2023		6,473
2024		2,109
Total	$	89,397

NOTE 6. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2019:

Land and permanent fund	$	29,676
Other grants		158,246
Due from PSFA		22,050
JPA		12,180
Severance tax bond appropriation		670
Other receivables		59,381
Total receivables		282,203
Allowance for doubtful accounts		-
Net amounts receivable	$	282,203

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

NOTE 7. LONG-TERM LIABILITIES

Long term liability activity for the year ended June 30, 2019 are summarized as follows:

	Balance July 1, 2018	Increase	Decrease	Balance June 30, 2019	Due Within One Year
Accrued sick leave	$ 90,344	22,276	(18,570)	94,050	$ 94,050
Accrued annual leave	168,821	161,862	(164,478)	166,205	119,610
Total accrued compensated absences	$ 259,165	184,138	(183,048)	260,255	$ 213,660

Current operations will be used to liquidate compensated absences liabilities.

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

General Information about the Pension Plan

Plan Description

The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at https://www.nmerb.org/Annual_reports.html.

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended. The Plan is a pension trust fund of the State of New Mexico. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Plan Description (Continued)

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined in Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Pension Benefit

A member's retirement benefit is determined by a formula which includes three component parts: 1) the member's final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan Provisions for Retirement Eligibility

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- 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.

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Summary of Plan Provisions for Retirement Eligibility (Continued)

- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits.
- The member's age is 67 and has earned 5 or more years of service credit.

Forms of Payment

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options

The Plan has three benefit options available:

- **Option A – Straight Life Benefit –** The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B – Joint 100% Survivor Benefit –** The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- **Option C – Joint 50% Survivor Benefit –** The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

Disability Benefit

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

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Cost of Living Adjustment (COLA)

All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.5%. 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 1.7%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

Refund of Contributions

Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Contributions

For the fiscal years ended June 30, 2019 and 2018 educational employers contributed to the Plan based on the following rate schedule.

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase Over Prior Year
2019	7-1-18 to 6-	Over $20K	10.70%	13.90%	24.60%	0.00%
2019	7-1-18 to 6-	$20K or	7.90%	13.90%	21.80%	0.00%
2018	7-1-17to 6-	Over $20K	10.70%	13.90%	24.60%	0.00%
2018	7-1-17 to 6-	$20K or	7.90%	13.90%	21.80%	0.00%

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2019 and 2018, the School paid employee and employer contributions of $496,813 and $641,405, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2019, the School reported a liability of $36,388,520 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2018. Therefore, the employer's portion was established as of the measurement date of June 30, 2018. The School's proportion of the net pension liability was based on a projection of the School's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions at June 30, 2018, actuarially determined. At June 30, 2018, the School's proportion was 0.16152%, which was a decrease of 0.00839% from its proportion measured as of June 30, 2017.

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. (Continued)

For the year ended June 30, 2019, the School recognized ERB related pension expense of $2,791,357. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 14,018	$ 365,538
Changes in assumptions	3,958,447	-
Net difference between projected and actual earnings on pension plan investments	42,519	-
Changes in proportion and differences between the School's contributions and proportionate share of contributions	534,041	7,513
Employer contributions subsequent to the measurement date	641,405	-
Total investment income	$ 5,190,430	$ 373,051

$641,405 reported as deferred outflows of resources related to pensions resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. (Continued)

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 Ending June 30,	Amount
2019	$ 2,474,504
2020	1,621,490
2021	79,420
2022	560
Total	$ 4,175,974

Actuarial assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%				
Salary increases	3.25% composed of 2.50% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.				
Investment rate of return	7.25% compounded annually, net of expenses. This is made up of a 2.50% inflation rate and a 4.75 real rate of return.				
Average of Expected	Fiscal year	2017	2016	2015	2014
Remaining Service Lives	Service life in years	3.35	3.77	3.92	3.88

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Actuarial assumptions (Continued)

Mortality	***Healthy males:*** Based on the RP-2000 Combined Mortality Table with White Collar adjustments, no set back, generational mortality improvements with Scale BB from the table's base year of 2000 ***Healthy females:*** Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012. ***Disabled males:*** Based on RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB. ***Disabled females***: Based on RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB. ***Active members:*** Based on RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.
Retirement Age	Experience-based table rates based on age and service, adopted by the NMERB Board on April 21, 2017 in conjunction with the six-year experience study for the period ending June 30, 2016.
Cost-of-living increases	1.90% per year, compounded annually; increases deferred until July 1 following the year a member retires, or the year in which a member attains the age of 65 (67 for Tier 3), whichever is later or, for disabled retirees, until July 1 of the third year following retirement.
Payroll growth	3.00% per year (with no allowance for membership growth).

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Actuarial assumptions ***(Continued)***

Contribution accumulation	The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.
Disability incidence	Approved rates are applied to eligible members with at least 10 years of service.

Actuarial assumptions and methods are set by the Plan's Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted several economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%

The long-term expected rate of return on pension plan investments was determined using a building-block approach that includes the following:

- Rate of return projections that are the sum of current yield plus projected changes in price (valuations, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Actuarial assumptions ***(Continued)***

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

Discount rate

A single discount rate of 5.69% was used to measure the total pension liability as of June 30, 2018. This rate is .21% less than the 5.90% discount rate used for June 30, 2017

The June 30, 2018 single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, and a municipal bond rate of 3.62%. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2050. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2050 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

The projections of cash flows used to determine the June 30, 2018 single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Additionally, contributions received through Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

NOTE 8. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

General Information about the Pension Plan (Continued)

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate (Continued)

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 5.69 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.69 percent) or 1-percentage-point higher (6.69 percent) than the current rate:

	1% Decrease (4.69%)	Current Discount Rate (5.69%)	1% Increase (6.69%)
NMSD's proportionate share of the net pension liability	$ 24,961,585	$ 19,206,878	$ 14,511,396

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in separately issued NMERB'S financial reports. The reports can be found on NMERB's Web site at https://www.nmerb.org/Annual_reports.html.

Payables to the pension plan

At June 30, 2019, the School reported a payable of $190,944 for outstanding contributions due to ERB.

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

General Information about the Pension Plan

Plan description

Public Employees Retirement 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 Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978).

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information about the Pension Plan (Continued)

Plan description (Continued)

Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits Provided

Benefits are generally available at age 65 with five or Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information about the Pension Plan (Continued)

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 during FY18 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures of the PERA FY19 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 $905,986 and employer paid member benefits that were "picked up" by the employer were $0 for the year ended June 30, 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the School reported a liability of $17,181,642 for its proportionate share of the PERA State Funded Division State General net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2018. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2018. The PERA State Funded Division State General proportion of the net pension liability was based on a projection of the PERA State Funded Division State General's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the School's proportion of the PERA State Funded Division State General was 0.4872%, which was a decrease of 0.0533% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School recognized PERA State Funded Division State General pension income of $278,624. At June 30, 2019, 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:

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information about the Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 400,127	$ 406,462
Changes in assumptions	1,165,049	60,916
Net difference between projected and actual earnings on pension plan investments	718,018	-
Changes in proportion and differences between the School's contributions and proportionate share of contributions	-	-
The School's contributions subsequent to the measurement date	905,986	-
Total investment income	$ 3,189,180	$ 467,378

$905,986 reported as deferred outflows of resources related to pensions resulting from the School contributions subsequent to the measurement date will recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information about the Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Year Ending June 30,		Amount
2019	$	1,107,511
2020		442,811
2021		227,520
2022		37,974
2023		-
Total	$	1,815,816

Actuarial assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay
Amortization period	Solved for based on statutory rates
Asset valuation method	
Actuarial assumptions:	
Investment rate of return	7.25% annual rate, net of investment expense
Projected benefit payment	100 uears
Payroll growth	3.00%
Projected salary increases	3.25% to 13.50% annual rate
Includes inflation at	2.50%, 2.75% all other years
Mortality Assumption	The mortality assumptions are based on the RPH-2014 Blue Collar mortality table with female ages set forward one year. Future improvement in mortality rates is assumed using 60% of the MP-2017 projection scale generationally. For non-public safety groups, 25% of in-service deaths are assumed to be duty related and 35% are assumed to be duty-related for public safety groups.
Experience Study Dates	July 1, 2008 to June 30, 2017 (demographic) and July 1, 2010 through June 20, 2018 (economic)

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information about the Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2018. These assumptions were adopted by the Board use in the June 30, 2017 actuarial valuation.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	43.50%	7.48%
Risk Reeducation & Mitigation	21.50%	2.37%
Credit Oriented Fixed Income	15.00%	5.47%
Real Assets to include Real Estate Equity	20.00%	6.48%
Total	100.00%	

Discount rate

A single discount rate of 7.25% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

NOTE 9. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

General Information about the Pension Plan (Continued)

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate

The following presents the *employer name's* proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the *employer name's* proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate.

PERA State Funded Division State General	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NMSD's proportionate share of the net pension liability	$ 22,677,973	$ 17,181,642	$ 12,617,968

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports. The report is available at www.nmpera.org.

Payables to the pension plan

Payables to the Plan from the School as of and for the year ended June 30, 2019 were $112,724.

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

General Information about the OPEB

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.

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information about the OPEB (Continued)

Plan description ***(Continued)***

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, 2018, the Fund's measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,205
Inactive and eligible for deferred benefits	11,471
Current active members	93,349
	156,025
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	17,004
Municipal police	6,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	96,349

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

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information about the OPEB (Continued)

Contributions (Continued)

circumstance, including termination of the employer's participation in the Fund. Contributions to the Fund from the School were $204,171 for the year ended June 30, 2019.

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

At June 30, 2019, the School reported a liability of $9,917,728 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The School's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2018. At June 30, 2018, the School's proportion was 0.22808 percent an increase of 0.0018 percent from prior year.

For the year ended June 30, 2019, the School recognized OPEB income of $199,842. At June 30, 2019 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	$ -	$ 587,193
Changes in assumptions	-	1,851,596
Net difference between projected and actual earnings on pension plan investments	-	123,770
Changes in proportion and differences between the School's contributions and proportionate share of contributions	82,629	-
The School's contributions subsequent to the measurement date	204,171	-
Total investment income	$ 286,800	$ 2,562,559

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information about the OPEB (Continued)

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

Deferred outflows of resources totaling $204,171 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ending June 30,		Amount
2020	$	(633,585)
2021		(633,585)
2022		(633,585)
2023		(485,301)
2024		(93,874)
Total	$	(2,479,930)

Actuarial assumptions

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

Actuarial 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 members; 2.25% for PERA
Projected salary increases	3.25% to 12.50%, based on years of service, including inflation
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
Mortality	ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA members: RP-2000 Combined Healthy Mortality

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information about the OPEB (Continued)

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.

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

Asset Class	Long-Term Expected Rate of Return
U.S. core fixed income	2.1%
U.S. equity - large cap	7.1%
Non U.S. - emerging markets	10.2%
Non U.S. - developed equities	7.8%
Private equity	11.8%
Credit and structured finance	5.3%
Real estate	4.9%
Absolute return	4.1%
U.S. equity - small/mid cap	7.1%

Discount Rate

The discount rate used to measure the Fund’s total OPEB liability is 4.08% as of June 30, 2018. 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, 2029. 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, 4.08% is the blended discount rate.

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information about the OPEB (Continued)

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates (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 a discount rate that is 1-percentage-point lower (3.08 percent) or 1-percentage-point higher (5.08 percent) than the current discount rate:

New Mexico Retiree Health Care	**1% Decrease (3.08%)**	**Current Discount Rate (4.08%)**	**1% Increase (5.08%)**
NMSD's proportionate share of the net OPEB liability	$ 12,002,786	$ 9,917,728	$ 8,274,237

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	$ 8,383,957	$ 9,917,728	$ 11,120,238

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, 2018.

Payable Changes in the Net OPEB Liability

At June 30, 2019, the School reported a payable of $44,012 for outstanding contributions due to NMRHCA for the year ended June 30, 2019.

NOTE 11. BENEFIT PROGRAM – CAFETERIA PLAN

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.

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.

NOTE 12. COMMITMENTS

During 2015, the School entered into contracts with Dekker/Perish/Sabitini and Bradbury Stamm for the School's 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 the Cartwright Hall project is administered through the Public Schools Facility Authority (PSFA). These projects were completed by June 30, 2019. There are no remaining project commitments at June 30, 2019.

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 13. 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 14. 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 the Schedule of Joint Powers Agreements beginning on page 73.

The following is a list of participating school districts:

Albuquerque Public Schools	Farmington Public Schools
Las Cruces Public Schools	Window Rock Unified Schools
Rio Rancho Public Schools	Belen Consolidated District Schools
Santa Fe Public Schools	Gallup McKinley Schools
Las Vegas Public Schools	Central Consolidated Schools
Pojoaque Public Schools	

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

NOTE 15. 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 award proceeds is $3,898,944 for the year ended June 30, 2019.

NOTE 15. BOND ACCOUNTING (CONTINUED)

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 the Schedule of Multiple-Year Capital Projects Funded by Special and Severance Tax Capital Outlay Appropriations beginning on page 74.

NOTE 16. 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.

	2019
General Fund Appropriations	$ 4,113,000
Bond Proceed Appropriations	$ 55,960

NOTE 17. RECENT ACCOUNTING STANDARDS

The School evaluated the following Governmental Accounting Standards Board Statements (GASBS) which became effective in the year ended June 30, 2019:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FY 2019). Earlier application is encouraged. This statement is not applicable to the School.

In March 2018, the GASB issued Statement No. 88*, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FY 2019). Earlier application is encouraged. This Statement applies to notes to financial statements of all periods presented. This statement is not applicable to the School.

NOTE 17. RECENT ACCOUNTING STANDARDS (CONTINUED)

The following standards have been issued but have future implementation dates:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FY 2020). Earlier application is encouraged. This statement is not applicable to the School.

In June 2017, the GASB issued Statement No. 87, *Leases.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2021). Earlier application is encouraged. The School is still evaluating how this Statement will affect future financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2021). Earlier application is encouraged. This statement is not applicable to the School.

In August 2018, the GASB issued Statement No. 90, *Majority Interests in an amendment of GASB Statements No. 14 and No. 6.* The requirements of this statement are effective for periods beginning after December 15, 2018 (FY 2020). Earlier application is encouraged. This statement is not applicable to the School.

NOTE 18. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 24, 2019, 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, 2019. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ERB)

New Mexico School for the Deaf

Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

Fiscal year	2019	2018	2017	2016	2015
Measurement date	2018	2017	2016	2015	2014
School's proportionate share of the net pension liability	0.15313 %	0.15313 %	0.15338 %	0.14953 %	0.15258 %
School's proportion of net pension liability	$ 19,206,878	$ 17,018,054	$ 11,037,890	$ 9,685,456	$ 8,705,797
School's covered payroll	$ 4,514,040	$ 4,360,963	$ 4,082,648	$ 4,205,601	$ 4,205,601
School's proportionate share of the net pension liability as a percentage of its covered payroll	425.49 %	390.24 %	270.36 %	230.30 %	207.00 %
Plan fiduciary net position as a percentage of the total pension liability	52.17 %	52.95 %	61.58 %	63.97 %	66.54 %

*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.

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S CONTRIBUTIONS (ERB)

New Mexico School for the Deaf
Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

	2019	2018	2017	2016	2015
Contractually required contribution	$ 641,405	$ 627,452	$ 606,174	$ 608,891	$ 590,835
Contributions in relation to the contractually required contribution	$ 641,405	$ 627,452	$ 606,174	$ 608,891	$ 590,835
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
School's covered payroll	$ 4,614,424	$ 4,514,040	$ 4,360,963	$ 4,082,648	$ 4,205,601
Contributions as a percentage of covered payroll	13.90 %	13.90 %	13.90 %	14.91 %	14.05 %

Changes in benefit provisions. There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2018.

Changes in Pension assumptions and methods. Actuarial assumptions and methods are set by the Board of Trustees (Board), based upon recommendations made by the plan's actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted a number of economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY(PERA)

New Mexico School for the Deaf

Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

Fiscal year	2019	2018	2017	2016	2015
Measurement date	2018	2017	2016	2015	2014
School's proportionate share of the net pension liability	0.48730 %	0.05406 %	0.51828 %	0.54989 %	0.54000 %
School's proportion of net pension liability	$ 17,181,642	$ 16,461,967	$ 16,998,800	$ 12,319,370	$ 9,697,851
School's covered payroll	$ 5,017,902	$ 5,112,838	$ 4,823,758	$ 4,996,304	$ 4,996,304
School's proportionate share of the net pension liability as a percentage of its covered payroll	342.41 %	321.97 %	352.40 %	246.57 %	194.10 %
Plan fiduciary net position as a percentage of the total pension liability	71.13 %	73.74 %	69.18 %	76.99 %	81.29 %

*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.

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF THE NEW MEXICO SCHOOL FOR THE DEAF'S CONTRIBUTIONS (PERA)

New Mexico School for the Deaf
Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

	2019	2018	2017	2016	2015
Contractually required contribution	$ 905,986	$ 852,542	$ 868,672	$ 819,557	$ 849,111
Contributions in relation to the contractually required contribution	$ 905,986	$ 852,542	$ 868,672	$ 819,557	$ 849,111
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
School's covered payroll	$ 5,332,466	$ 5,017,902	$ 5,112,838	$ 4,823,758	$ 4,996,304
Contributions as a percentage of covered payroll	16.99 %	16.99 %	16.99 %	16.99 %	16.99 %

Changes of benefit terms: The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. https://www.saonm.org

Assumptions. The Public Employee Retirement Association of New Mexico Annual Actuarial Valuations as of June 2018 report is available at http://www.nmpera.org/

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF NEW MEXICO SCHOOL FOR THE DEAF'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (NMRHCA)

New Mexico School for the Deaf
Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

Fiscal year	2019	2018
Measurement date	2018	2017
School's proportionate share of the OPEB liability	0.22808 %	0.22628 %
School's proportion of net OPEB liability	$ 9,917,728	$ 10,254,270
School's covered payroll	$ 9,751,950	$ 9,426,027
School's proportionate share of the net OPEB liability as a percentage of its covered payroll	101.70 %	108.79 %
Plan fiduciary net position as a percentage of the total OPEB liability	13.14 %	11.34 %

*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

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF NEW MEXICO SCHOOL FOR THE DEAF'S CONTRIBUTIONS (NMRHCA)

New Mexico School for the Deaf
Schedule of Ten Year Tracking Data* to last 10 Fiscal Years*

	2019	2018
Contractually required contribution	$ 204,171	$ 195,039
Contributions in relation to the contractually required contribution	$ 204,171	$ 195,039
Contribution deficiency (excess)	$ -	$ -
School's covered payroll	$ 10,208,550	$ 9,751,950
Contributions as a percentage of covered payroll	2.00 %	2.00 %

Changes in plan membership. As part of the June 30, 2017 NMRHCA GASB 74/75 audit, it was discovered that 4,010 members were deemed participants of non-participating employers. As a result, those members were removed and thus excluded from the valuation in the year ended June 30, 2018.

Changes in OPEB assumptions and methods. The mortality, retirement, disability, turnover, and salary increase assumptions are based on the Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 and the New Mexico Educational Retirement Board (ERB) Actuarial Experience Study as of June 30, 2016.

Changes in OPEB benefit provisions. For calendar years 2017 and prior there was a NMRHCA-paid basic life benefit of $6,000 for all retirees who commenced benefits on or before December 31, 2012. The $6,000 benefit decreased $1,500 per year commencing January 1, 2018 until January 1, 2021 at which time retirees must pay 100% of the premium cost.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
UNRESTRICTED AND RESTRICTED – ALL OPERATIONS
For the year ended June 30, 2019

	Original	Final	Actual Amounts	Variance with Final Budget-Positive (Negative)
Beginning fund balance	$ 17,250,802	11,082,737	(6,374,763)	$ (17,457,500)
REVENUES				
State general fund appropriations	4,113,000	4,113,000	4,113,000	-
Land grant permanent funds	14,066,453	13,751,000	13,954,021	203,021
Federal grants and contacts	-	-	83,511	83,511
State government grants and contracts	328,864	617,949	648,726	30,777
Joint powers agreements	130,000	235,000	217,750	(17,250)
PSFA and severance tax bond proceeds	4,414,121	6,847,365	4,996,310	(1,851,055)
Investment income	-	-	140,746	140,746
Other sources	122,200	213,500	177,599	(35,901)
Total revenues	23,174,638	25,777,814	24,331,663	(1,446,151)
EXPENDITURES				
Instruction	4,340,371	4,795,327	4,416,054	379,273
Academic support	4,356,817	4,819,810	4,389,609	430,201
Institutional support	2,790,850	2,986,961	2,773,525	213,436
Operation and maintenance of plant	2,584,963	2,626,658	2,260,368	366,290
Student services	2,970,520	3,205,205	3,037,393	167,812
Public service	1,381,909	1,381,830	1,006,490	375,340
Capital outlay	6,582,022	8,900,000	3,667,037	5,232,963
Renewals and replacements	125,000	125,000	56,417	68,583
Total expenditures	25,132,452	28,840,791	21,606,893	7,233,898
TRANSFERS				
Transfers in	2,891,217	2,250,000	1,032,100	(1,217,900)
Transfers out	(2,891,217)	(2,250,000)	(1,032,100)	1,217,900
Total transfers	-	-	-	-
Changes in net position	(1,957,814)	(3,062,977)	2,724,770	(8,680,049)
Ending fund balance	$ 15,292,988	8,019,760	(3,649,993)	$ (26,137,549)

Changes in net position (budgetary basis)	$ 2,724,770
Capital outlay - building, equipment, vehicles, et.	2,716,351
Depreciaiton	(1,793,397)
Pension expense	(2,512,733)
Retiree health care expense	199,842
Change in net position - GAAP basis	$ 1,334,833

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
UNRESTRICTED NON-INSTRUCTION AND GENERAL
For the year ended June 30, 2019

	Original	Final	Actual Amounts	Variance with Final Budget-Positive (Negative)
Beginning fund balance	$ 14,262,326	5,975,456	7,697,644	$ 1,722,188
REVENUES				
PSFA and severance tax bond proceeds	4,414,121	6,847,365	4,996,310	(1,851,055)
Investment income	-	-	17,520	17,520
Federal grants and contracts	15,000	-	-	-
Other sources	-	-	80,439	80,439
Total revenues	4,429,121	6,847,365	5,094,269	(1,753,096)
EXPENDITURES				
Public service	1,381,909	1,381,830	1,006,490	375,340
Capital outlay	6,582,022	8,900,000	3,667,037	5,232,963
Renewals and replacements	125,000	125,000	56,417	68,583
Total expenditures	8,088,931	10,406,830	4,729,944	5,676,886
TRANSFERS				
Transfers in	1,859,117	1,750,000	1,007,100	(742,900)
Transfers out	(1,032,100)	(500,000)	-	500,000
Total transfers	827,017	1,250,000	1,007,100	(242,900)
Changes in net position	(2,832,793)	(2,309,465)	1,371,425	(7,672,882)
Ending fund balance	$ 11,429,533	3,665,991	9,069,069	$ (5,950,694)

Changes in net position (budgetary basis)	$ 1,371,425
Capital outlay - building, equipment, vehicles, et.	2,716,351
Depreciation	(1,793,397)
Change in net position - GAAP basis	$ 2,294,379

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
UNRESTRICTED CURRENT FUNDS – INSTRUCTION AND GENERAL
For the year ended June 30, 2019

	Original	Final	Actual Amounts	Variance with Final Budget-Positive (Negative)
Beginning fund balance	$ 2,894,393	4,839,488	(14,276,691)	$ (19,116,179)
REVENUES				
State general fund appropriations	4,113,000	4,113,000	4,113,000	-
Land grant permanent funds	14,066,453	13,751,000	13,954,021	203,021
Federal grants and contracts	-	-	83,511	83,511
Investment income	-	-	123,098	123,098
Other sources	122,200	213,500	77,115	(136,385)
Total revenues	18,301,653	18,077,500	18,350,745	273,245
EXPENDITURES				
Instruction and general:				
Instruction	3,739,386	3,767,378	3,497,253	270,125
Academic support	4,356,817	4,819,810	4,389,609	430,201
Institutional support	2,790,850	2,986,961	2,773,525	213,436
Operation and maintenance of plant	2,584,963	2,626,658	2,260,368	366,290
Student services	2,970,520	3,205,205	3,037,393	167,812
Total expenditures	16,442,536	17,406,012	15,958,148	1,447,864
TRANSFERS				
Transfers in	1,032,100	500,000	-	(500,000)
Transfers out	(1,859,117)	(1,750,000)	(1,032,100)	717,900
Total transfers	(827,017)	(1,250,000)	(1,032,100)	217,900
Changes in net position (budgetary basis)	1,032,100	(578,512)	1,360,497	(956,719)
Ending fund balance	$ 3,926,493	4,260,976	(12,916,194)	$ (20,072,898)

Changes in net position (budgetary basis)	$ 1,360,497
Pension expense (ERB)	(2,512,733)
Retiree health care expense (OPEB)	199,842
Change in net position - GAAP basis	$ (952,394)

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
STATEMENT OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
RESTRICTED CURRENT FUNDS – INSTRUCTION AND GENERAL
For the year ended June 30, 2019

	Original	Final	Actual Amounts	Variance with Final Budget-Positive (Negative)
Beginning fund balance	$ 94,083	267,793	204,284	$ (63,509)
REVENUES				
State government grants and contracts	313,864	617,949	648,726	30,777
Joint powers agreements	130,000	235,000	217,750	(17,250)
Investment income	-	-	128	128
Other sources	-	-	20,045	20,045
Total revenues	443,864	852,949	886,649	33,700
EXPENDITURES				
Instruction and general:				
Instruction	600,985	1,027,949	918,801	109,148
Public service	-	-	-	-
Total expenditures	600,985	1,027,949	918,801	109,148
TRANSFERS				
Transfers in	-	-	25,000	25,000
Transfers out	-	-	-	-
Total transfers	-	-	25,000	25,000
Changes in net position (budgetary basis)	(157,121)	(175,000)	(7,152)	(50,448)
Ending fund balance	$ (63,038)	92,793	197,132	$ (113,957)

Changes in net position (budgetary basis)	$ (7,152)
Capital outlay - equipment, vehicles, etc.	-
Change in net position - GAAP basis	$ (7,152)

OTHER SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF RESTRICTED AND UNRESTRICTED CASH AND INVESTMENTS
JUNE 30, 2019

	Sunflower Bank	State Treasurer's Office	Total
RESTRICTED AND UNRESTRICED CASH			
Operational checking	$ 7,029,297	-	$ 7,029,297
Less outstanding checks	(72,365)	-	(72,365)
Total restricted and unrestricted cash, net of overdrafts	$ 6,956,932	-	$ 6,956,932
INVESTMENTS			
Certificate of deposits	$ 345,778	-	$ 345,778
Local government investment pool	-	6,290,215	6,290,215
Total investments	$ 345,778	6,290,215	$ 6,635,993

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS
JUNE 30, 2019

			Sunflower Bank
Total bank balance - demand deposits			$ 7,029,297
Less FDIC coverage			(250,000)
Uninsured balance of demand deposits			6,779,297
Total bank balance - time and savings deposits			345,778
Less FDIC coverage			(250,000)
Uninsured balance of time and savings deposits			95,778
Total uninsured bank balance			6,875,075
Collateralization requirement (50%)			3,437,538
Pledged securities (fair value):			
Type	**Cusip#**	**Maturity Date**	
FNR 2014-65 DV	CUSIP# 3136AK6G3	1/25/2026	1,905,493
FHR 4305 MA	CUSIP#3137B87B7	8/15/2038	1,474,611
FHR 4690 NA	CUSIP#3137F13R7	8/15/2041	1,960,385
FNMA Pool #MA 1059	CUSIP# 31418AE95	5/1/2032	4,029,289
Total pledged securities (fair value)			9,369,778
Amount over (under) collateral requirement			$ 5,932,241

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS
JUNE 30, 2019

Project Description	Appr ID	Authority/ Chapter	Laws	Expiration	Total Appropriation	Bonds Sold to Date	Bonds Unsold
General Obligation Revenue Bond							
Delgado Hall Renovation	GOB17 A5132	Ch 82 Sec 10/C/8	2016	06/30/21	$ 2,000,000	2,000,000	-
Severance Tax Bond Proceeds							
Delgado Hall Renovation	STB15A 15-0225	Ch 3 Sec 10	2015	06/30/19	130,000	130,000	-
					$ 2,130,000	2,130,000	-

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY SPECIAL AND SEVERANCE TAX CAPITAL OUTLAY APPROPRIATIONS (CONTINUED)
JUNE 30, 2019

Project Description	Amount Available	Expenditures Prior Years	Expenditures Current Year	Art in Public Places	Total Expended	Remaining Amount	Reversions Current Year
General Obligation Revenue Bond							
Delgado Hall Renovation	2,000,000	923,016	1,041,406	20,000	1,984,422	15,578	$ -
Severance Tax Bond Proceeds							
Delgado Hall Renovation	130,000	44,888	55,960	-	100,848	29,152	-
	2,130,000	967,904	1,097,366	20,000	2,085,270	44,730	$ -

1) Participant: Albuquerque Public Schools (APS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/18-6/30/19
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: $45,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: APS & NMSD

2) Participant: Las Cruces Public Schools (LCPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/18-6/30/19
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: 7/1/18-6/30/19
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: $15,000
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: RRPS & NMSD

4) Participant: Santa Fe Public Schools (SFPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/18-6/30/19
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: $78,750
Audit responsibility: NMSD
Fiscal agent: NMSD
Agency where revenues/expenditures are reported: SFPS & NMSD

5) Participant: Farmington Public Schools (FPS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/18-6/30/19
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: $5,000
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: 7/1/18-6/30/19
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: 7/1/18-6/30/19
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 re reported: CPS & NMSD

8) Participant: Belen Consolidated District Schools (BCDS)
Party responsible for operations: NMSD
Purpose: Educational services
Dates of Agreement: 7/1/18-6/30/19
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: BCDS & NMSD

9) Participant: Pojoaque Public Schools (PPS)
   Party responsible for operations: NMSD
   Purpose: Educational services
   Dates of Agreement: 7/1/18-6/30/19
   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: PPS & NMSD

10) Participant: Gallup McKinley Schools (GMS)
    Party responsible for operations: NMSD
    Purpose: Educational services
    Dates of Agreement: 7/1/18-6/30/19
    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: GMS & NMSD

11) Participant: Window Rock Unified Schools (WRUS)
    Party responsible for operations: NMSD
    Purpose: Educational services
    Dates of Agreement: 7/1/18-6/30/19
    Total estimated amount of project: Dependent upon number of students
    Amount agency contributed in the fiscal year: $8,000
    Audit responsibility: NMSD
    Fiscal agent: NMSD
    Agency where revenues/expenditures are reported: WRUS & NMSD

COMPLIANCE SECTION

RICCI & COMPANY

1030 18th Street NW
Albuquerque, NM 87104
505 338 0800 *office* www.riccicpa.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

The Board of Regents
New Mexico School for the Deaf
and
Brian S. Colón, Esq.
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the New Mexico School for the Deaf (the School or NMSD) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 24, 2019. 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, 2019, 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.

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

Our consideration of 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items that we consider to be a material weakness identified as finding 2017-001 in the statement of findings and responses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 2.2.2 NMAC.

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.

Ricci & Company, LLC

Albuquerque, New Mexico
October 24, 2019

STATE OF NEW MEXICO
NEW MEXICO SCHOOL FOR THE DEAF
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

SUMMARY OF AUDITOR RESULTS

Type of report issued:	Unmodified
Internal Controls Over Financial Reporting:	
Material weaknesses reported?	Yes
Significant deficiencies reported?	No
Noncompliance material to the financial statements noted?	No

PRIOR YEAR FINDINGS

2017-001	Entity level controls over financial reporting	Repeated and Modified
2017-004	Purchase orders and payment authorizations	Resolved
2017-005	Travel and per diem	Resolved
2017-008	Expenditures in excess of budget	Resolved
2017-009	Late filing of audit report	Resolved
2018-001	Improper Segregation of Duties	Resolved
2018-002	Stale dated warrants / unclaimed property	Resolved
2018-003	Overtime not properly approved	Resolved

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. During audit fieldwork it was identified that significant adjustments to various key transaction cycles were required subsequent to receiving the trial balance. Progress has been made by management in resolving this finding including hiring a CPA. However, although progress has been made, a CPA was not hired until the end of the fiscal year and the following items were noted during our testwork:

- During our testwork over cash, we noted that checks written subsequent to June 30, 2019 were included in the reconciliations from the bank balance to the book balance as outstanding checks at June 30, 2019. This resulted in the cash reconciliation being out of balance by $645,035. Reconciliations were updated to exclude invalid items during the audit.
- Accounts payable was understated by $61,694. An adjustment was recorded to correct the balances.

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. Per NMAC 2.20.5.8 Chief Financial Officer and Assignment of Responsibilities Part B states "It is the responsibility of the chief financial officer to ensure that: (1) an internal control structure exists at the state agency and is functioning properly. (2) all transactions are recorded daily in the agency's accounting records. (3) all transactions are properly classified in the agency's records. (4) cash account records are reconciled timely each month to the division's reports and to the state

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, and a lack of policies and procedures over year-end financial close and reporting.

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.

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

MANAGEMENT RESPONSE

This issue has been resolved as of the date of the audit report.

For the first issue, Finance will follow up, on a monthly basis, with the Human Resources staff to ensure that the cash reconciliation function is completed in a more timely manner.

For the second issue, adjusting entries, this function will be done in a more timely manner

ESTIMATED TIMELINE TO CORRECT

As of the date of the audit report, this finding has been resolved.

RESPONSIBLE OFFICIAL

Senior Accountant and Director of Finance.

A. EXIT CONFERENCE

An exit conference was held at the New Mexico School for the Deaf campus on October 24, 2019, with the following individuals in attendance:

New Mexico School for the Deaf	
George Nathan Gomme	Board President
Mark Apodaca	Director of Finance
Rosemary Gallegos	Superintendent
Rick Garcia	Director of Human Resources
Melinda Mainland	Senior Accountant
Julie Nagle	Interpreter
Ricci & Company LLC	
Mark Santiago	CPA, Audit Senior Manager
Mike Easley	CPA, Audit Supervisor

B. AUDITOR PREPARED FINANCIAL STATEMENTS

The financial statements were prepared with the assistance of Ricci & Company LLP from the books and records of the State of New Mexico New Mexico School for the Deaf. The financial statements and related footnotes remain the responsibility of management.