

**OFFICIAL STATEMENT DATED MARCH 7, 2016**  
**\$7,750,000**  
**GALLUP-MCKINLEY COUNTY SCHOOL DISTRICT NO. 1**  
**McKinley County, New Mexico**  
**General Obligation School Building Bonds, Series 2016**

**NEW ISSUE**  
**Book-Entry Only**

**Moody's rating: A1 Underlying/Aa1 Enhanced**

**PURPOSES** Proceeds of the Bonds will be used for the purpose of (i) erecting, remodeling, making additions to and furnishing school buildings and purchasing or improving school grounds and purchasing computer software and hardware for student use in public schools, providing matching funds for capital outlay projects funded pursuant to the Public School Capital Outlay Act [22-24-1 NMSA 1978], or any combination of these purposes and (ii) paying costs of issuance.

**THE BONDS** The Bonds are issuable as fully registered bonds and when initially issued will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). Purchases of the Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through a DTC Participant. Beneficial owners of the Bonds will not be entitled to receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Bonds. Interest on the Bonds is payable on each February 1 and August 1, commencing February 1, 2017. As long as DTC or its nominee is the registered owner of the Bonds, reference in this Official Statement to registered owner will mean Cede & Co., and payments of principal of and interest on the Bonds will be made directly to DTC by the Paying Agent. Disbursements of such payments to DTC Participants are the responsibility of DTC. See "The Bonds - Book-Entry Only System". BOKF, N.A., New Mexico (or successor in function) will serve as the Registrar and Paying Agent for the Bonds.

**OPTIONAL REDEMPTION** The Series 2016 Bonds are subject to redemption prior to maturity as provided herein. See "THE BONDS."

**SECURITY** The Bonds are general obligations of the Gallup-McKinley County School District No. 1, McKinley County, New Mexico, payable solely out of general (ad valorem) property taxes which are required to be levied against all taxable property in the District without limitation as to rate or amount.

**BOND AND TAX OPINION** In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under existing law and assuming continuous compliance with certain covenants in the documents relating to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, (the "Code") interest on the Bonds is excluded from gross income for federal income tax purposes, and the interest on the Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. However, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings. Bond Counsel is further of the opinion that interest on the Bonds is excluded from net income for purposes of certain New Mexico taxes imposed on individuals, estates, trusts and corporations. Bond Counsel expresses no opinion regarding other federal income tax consequences relating to the accrual or receipt of interest on the Bonds. (See "Tax Exemption" herein.) The District has designated the Bonds as "Qualified Tax Exempt Obligations" for the purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986 (see "Financial Institution Interest Deduction" herein.)

**DELIVERY** When, as and if issued, through DTC's facilities, on or about April 21, 2016.

**DATED DATE** Date of delivery.

**DUE DATE** August 1, as shown on below:

Year				Year				
Maturing		Interest	Yield/	Maturing		Interest	Yield/	Cusip #
(Aug. 1)	Principal	Rate	Price	(Aug. 1)	Principal	Rate	Price	364010
2017	\$600,000	3.000%	0.550%	2024	\$625,000	3.000%	1.600%	RZ3
2018	735,000	3.000%	0.750%	2025	665,000	3.000%	1.750%	SA7
2019	600,000	3.000%	0.850%	2026	665,000	2.000%	1.880%	SB5 c
2020	600,000	3.000%	1.000%	2027	665,000	2.000%	1.980%	SC3 c
2021	600,000	3.000%	1.200%	2028	665,000	2.250%	2.100%	SD1 c
2022	675,000	3.000%	1.300%					
2023	655,000	3.000%	1.450%					

c- priced to call date 8/1/2025

Wells Fargo Bank, N.A., Municipal Products Group

## **ISSUER**

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McKinley County, New Mexico  
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## **DISTRICT ADMINISTRATION**

*Frank Chiapetti:* Superintendent  
*Pauletta White:* Assoc. Superintendent for Student  
Support Services & Supports Service  
*Mike Hyatt:* Assoc. Superintendent for Personnel &  
Business Services  
*Jvanna Hanks II:* Chief Financial Officer

## **BOND COUNSEL**

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## A Few Words About Official Statements

Official statements for municipal securities issues – like this one – contain the only “official” information about a particular issue of municipal securities. This Official Statement is not an offer to sell or solicitation of an offer to buy Bonds in any jurisdiction where it is unlawful to make such offer, solicitation or sale and no unlawful offer, solicitation or sale of the Bonds may occur through this Official Statement or otherwise. This Official Statement is not a contract and provides no investment advice. Investors should consult their advisors and legal counsel with their questions about this Official Statement, the Bonds or anything else related to this issue.

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### MARKET STABILIZATION

*In connection with this Official Statement, the Underwriter may over-allot or effect transactions which stabilize and maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. The Underwriter is not obligated to do this and is free to discontinue it at any time.*

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The estimates, forecasts, projections and opinions in this Official Statement are not hard facts, and no one, including the District, guarantees them.

The information set forth or included in this Official Statement has been provided by the District and from other sources believed by the District to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the District described herein since the date hereof. This Official statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as

to the correctness of such estimates and opinions or that they will be realized.

Bond Counsel, Modrall, Sperling, Roehl, Harris & Sis, P.A., Albuquerque, New Mexico was not requested and did not take part in the preparation of the Official Statement nor has such firm undertaken to independently verify any of the information contained herein. Such firm has no responsibility for the accuracy or completeness of any information furnished in connection with any offer or sale of the Bonds in the Official Statement or otherwise. The legal fees to be paid to bond counsel for services rendered in connection with the issuance of the Bonds is contingent, in part, upon the sale and delivery of such Bonds and all legal fees will be paid from bond proceeds.

Any part of this Official Statement may change at any time, without prior notice. Also, important information about the District and other relevant matters may change after the date of this Official Statement.

All document summaries are just that – they are not complete or definitive, and they may omit relevant information. Such documents are qualified in their entirety to the complete documents. Any investor who wishes to review the full text of documents may request them at no cost from the District or the Financial Advisor as follows:

### **District**

Gallup McKinley County School District  
640 South Boardman  
Gallup, NM 87301  
Attn: Jvanna Hanks II

### **Financial Advisor**

RBC Capital Markets, LLC  
6301 Uptown Blvd. NE, Suite 110  
Albuquerque, NM 87110  
Attn: Paul J. Cassidy

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**\$7,750,000**

**Gallup-McKinley County School District No. 1, McKinley County, New Mexico  
General Obligation School Building Bonds, Series 2016**

**INTRODUCTION**

This Official Statement is furnished to prospective purchasers of Gallup-McKinley County School District, New Mexico, General Obligation School Building Bonds, Series 2016 (the "Bonds" or "Series 2016 Bonds"), issued in the aggregate principal amount of \$7,750,000 by Gallup-McKinley County School District, McKinley County, New Mexico (the "District"). The offering of the Bonds is made only by way of this Official Statement and the Official Notice of Meeting and Sale dated February 1, 2016, which supersedes any other information or materials used in connection with the offer or sale of the Bonds. Additional information concerning the District, the Bonds, and other aspects of this offering may be obtained either from the District, or RBC Capital Markets, LLC (the "Financial Advisor") at the address set forth in the section entitled "ADDITIONAL MATTERS."

The following material is qualified in its entirety by the more complete information contained throughout this Official Statement, and detachment or other use of this "INTRODUCTION " without the entire Official Statement, including the cover page and the appendices, is not authorized.

All terms used in this Official Statement that are not defined herein shall have the meanings given such terms in Resolution authorizing issuance of the Bonds to be adopted by the Board of Education of the District (the "Board") on March 7, 2016 (the "Bond Resolution").

**The Financial Advisor**

The Issuer has retained RBC Capital Markets, LLC as financial advisor (the "Financial Advisor") in connection with the preparation, authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds.

**The Issuer**

The District is a political subdivision of the State of New Mexico (the "State") organized for the purpose of operating and maintaining an educational program for the school-age children residing within its boundaries. The District encompasses approximately 4,957 square miles, which includes the City of Gallup (the "City") and unincorporated portions of McKinley County (the "County") in western New Mexico. The District's 2015 assessed valuation is \$833,431,975 and its 2015/16 student enrollment was 11,173. See "THE DISTRICT."

**Security**

The Bonds are general obligations of the District and paid from ad valorem taxes that are levied against all taxable property within the District. Neither the State nor the County has any responsibility to pay the debt service on the Bonds.

## Limited Role of Auditors

Except for the audited financial statements of the District for the year ended June 30, 2015, contained in Appendix B, this Official Statement presents unaudited financial and statistical information from District records and other sources.

## Purpose

The Bonds are being offered for the purpose of providing funds (i) for erecting, remodeling, making additions to and furnishing school buildings, purchasing and improving school grounds, and purchasing computer software and hardware for student use in public school classrooms, or any combination of these purposes within the District and (ii) to pay costs of issuance.

## Selected Debt Ratios

	<u>2015</u>
2015 Assessed Valuation	\$833,431,975
2015 Estimated Actual Valuation	\$2,865,363,042 <sup>(1)</sup>
District General Obligation	
Debt Outstanding	\$41,585,000
Series 2016 Bonds	<u>7,750,000</u>
	\$49,335,000
District Net General Debt	\$43,179,806
Estimated Direct &	
Overlapping General Obligation Debt	\$73,839,080
District Net Debt as a Percentage of	
Assessed Valuation	5.18%
Estimated Actual Valuation	1.51%
Direct and Overlapping Debt as a Percentage of	
Assessed Valuation	8.86%
Estimated Actual Valuation	2.58%
Estimated Population	70,000
District Net Debt Per Capita	\$616.85
Direct and Overlapping Debt Per Capita	\$1,054.84

(1) Estimated actual valuation is computed by adding the exemptions to the assessed valuation and multiplying the result by three.

## THE BONDS

New Mexico law enables the District to issue the Bonds (Section 6-15-1 through Section 6-15-22, NMSA, 1978). The New Mexico Attorney General will provide a written approving opinion with respect to the Bonds.

### General Terms

The Bonds will bear interest at the rates and mature in the amounts and on the dates shown on the front cover of this Official Statement. All Bonds are fully registered in denominations of \$5,000 or integral multiples thereof in conformance with the Constitution and laws of the State and pursuant to the Bond Resolution. Bond payments will go to The Depository Trust Company ("DTC"), and DTC will then remit the payments to its participants for disbursement to the beneficial owners of the Bonds. See **"Book-Entry Only System"** in Appendix C.

### Bond Registrar and Paying Agent

BOKF, N.A. (or successor) will serve as Paying Agent and Registrar for the Bonds.

### Payment of Principal and Interest; Record Date

The principal of the Bonds is payable to the registered owners of the Bonds at the principal office of the Paying Agent. Interest on the Bonds is payable by check or draft of the Paying Agent mailed on or before each interest payment date to the registered owners of the Bonds as of the close of business on the 15<sup>th</sup> day of the calendar month preceding the interest payment date (the "Regular Record Date") at the addresses appearing in the registration books maintained by the Registrar; but any such interest not so timely paid or duly provided for shall cease to be payable to the person who is the registered owner thereof at the close of business on the Regular Record Date and shall be payable to the person who is the registered owner thereof at the close of business on the date to be fixed by Registrar whenever moneys become available for the payment of defaulted interest (the "Special Record Date").

### Optional Prior Redemption

The Series 2016 Bonds maturing on and after August 1, 2026, are subject to prior redemption at the District's option in one or more units of \$5,000 on and after August 1, 2025 in whole or in part at any time in such order of maturities as the District may determine for the principal amount of each \$5,000 unit of principal so redeemed and accrued interest to the redemption date. If the District redeems only part of the Bonds of a given maturity, the Registrar will select those Bonds by lot.

### Transfers and Exchanges

Registered Bond owners may surrender and transfer their Bonds, in person or by duly authorized attorney, at the office of the Paying Agent/Registrar. They must complete an approved transfer form and pay any taxes or governmental charges which apply to the transfer. As explained in Appendix C, while DTC is the securities depository for the Bonds, it will be the sole registered owner of the Bonds.

### Limited Book-Entry Responsibilities

While a book-entry-only system is used for the Bonds, the Paying Agent/Registrar will send redemption and other notices only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the Bond redemption or any other action based on the notice.

The District and the Financial Advisor have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership of interests in the Bonds.

The District and the Financial Advisor cannot and do not give any assurances that DTC will distribute payments to DTC Participants or that DTC Participants or others will distribute payments with respect to the Bonds received by DTC or its nominees as the holder or any redemption notices or other notices to the beneficial holders, or that they

will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement. See Appendix C.

## **SECURITY AND REMEDIES**

The Bonds are general obligations of the District payable from general (ad valorem) property taxes that may be levied against all taxable property within the District without limitation of rate or amount.

The District must use all of the property taxes collected for debt service, and any other legally available money, to pay the debt service on the Bonds and other outstanding debt.

Various New Mexico laws and constitutional provisions apply to the assessment and collection of ad valorem property taxes. There is no guarantee that there will not be any changes that would have a material effect on the District.

### **Limitations of Remedies**

There is no provision for acceleration of maturity of the principal of the Bonds in the event of a default in the payment of principal or interest on the Bonds. Consequently, remedies available to the owners of the Bonds may need to be enforced from year to year.

The enforceability of the rights and remedies of the owners of the Bond, and the obligations incurred by the District in issuing the Bond, are subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; usual equity principles that may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Note to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.



## **NEW MEXICO SCHOOL DISTRICT ENHANCEMENT PROGRAM**

The New Mexico legislature amended NMSA 1978 Section 22-18-1 et. seq. in the first session of 2003 by adding Section 22-18-13 which became effective July 1, 2003. Section 22-18-13 was further amended in 2007 and provides that, if the school district indicates that it will not make the payment by the date on which it is due, the New Mexico Department of Finance and Administration ("DFA") shall forward the amount in immediately available funds necessary to make the payment due on the bonds to the paying agent from the current fiscal year's undistributed State Equalization Guarantee ("SEG") distribution to that school district and, if not otherwise repaid by the school district from other legally available funds, withhold the distributions from the school district until the amount has been recouped by the DFA and administration, provided that, if the amount of the undistributed SEG distribution in the current fiscal year is less than the payment due on the bond, the DFA shall:

- (1) forward in immediately available funds to the paying agent an amount equal to the total amount of the school district's undistributed SEG distribution and, if not otherwise repaid by the school district from other legally available funds, withhold all distributions to the school district for the remainder of the fiscal year; and
- (2) on July 1 of the following fiscal year, forward in immediately available funds an amount equal to the remaining amount due to the paying agent from that year's SEG distribution and, if not otherwise repaid by the school district from other legally available funds, withhold an equal amount from the distribution to the school district until the amount paid has been recouped in full.

**This provision applies to all New Mexico school districts.**

Withholding of the SEG distribution may affect the District's ability to continue to operate.

The New Mexico School District Enhancement Program was initially put on watch list for possible downgrade on May 15, 2007 after the State adopted new legislation that altered the mechanics of the program. After a review of the law and policies regarding the implementation of the law, program ratings were bifurcated, with one rating applying to bonds issued prior to the March 30, 2007 effective date of the legislation and a second rating applying to bonds issued on or after the March 30, 2007 effective date. Under the new law, the State cannot immediately advance more than the remaining undistributed SEG payments for the fiscal year of default. As a result, those districts with principal and interest payments that fall in the latter part of the fiscal year or that are significant in amount relative to the district's total annual SEG distribution may not have sufficient undistributed SEG payments to cover debt service payments in the event of a default.

**The Moody's rating for the New Mexico School District Enhancement Program is Aa1.**

By request, Moody's will assign the Aa1 rating to school district bonds upon verification of a requirement in the authorizing bond resolution that an independent, third-party paying agent will be appointed and maintained. The District has qualified the Bonds under the New Mexico School District Enhancement Program.

## DEBT AND OTHER FINANCIAL OBLIGATIONS

Article IX, Section 11 of the New Mexico Constitution limits the powers of a District to incur general obligation debt extending beyond the fiscal year. The District can incur such debt for the purpose of erecting, remodeling, making additions to and furnishing school buildings or purchasing or improving school grounds or any combination of these purposes but only after the proposition to create any such debt has been submitted to a vote of the qualified electors of the District, and a majority of those voting on the question vote in favor of creating the debt. The total indebtedness of the District may not exceed 6% of the assessed valuation of the taxable property within the District as shown by the last preceding general assessment. The District also may create a debt by entering into a lease-purchase arrangement to acquire education technology equipment without submitting the proposition to a vote of the qualified electors of the District, but any such debt is subject to the 6% debt limitation. The issuance of refunding bonds does not have to be submitted to a vote of the qualified electors of the District.

The most recent assessed valuation of taxable property within the District is \$833,431,975 for the tax year 2015, as approved by the State of New Mexico Taxation and Revenue Department, Property Tax Division. The maximum general obligation indebtedness of the District may not exceed 6% of the assessed valuation or \$50,005,918.

After the Bonds are issued, the ratio of total outstanding general obligation (G/O) debt of the District to the 2015 assessed valuation will be no greater than 5.18% as summarized below:

2015 Assessed Valuation	\$833,431,975
2015 Estimated Actual Valuation	\$2,865,363,042 <sup>(1)</sup>
Bonded Debt	
Total Outstanding (including the Bonds)	\$49,335,000
Less Debt Service Fund Balance	<u>6,155,194</u> <sup>(2)</sup>
NET DEBT	<u>\$43,179,806</u>
Ratio of Estimated Net Debt to 2015 Assessed Valuation:	5.18%
Ratio of Estimated Net Debt to 2015 Estimated Actual Valuation:	1.51%
Per Capita Net Bonded Debt:	\$616.85
Estimated Population:	70,000

(1) Estimated actual valuation is computed by adding the exemptions to the assessed valuation and multiplying the result by three.

(2) The debt service fund cash balance was \$7,945,261.74 as of February 15, 2016. The amount properly attributable to principal reduction is 77.5% .

The District has revenue bonded debt outstanding in the principal amount of \$17,830,000 for teacher housing projects. The bonds/loans are secured by federal impact aid payments and net revenues of the teacher housing project and not payable from general property taxes or any other District sources.

## Outstanding Debt

The District has issued debt ("Outstanding Debt") in the past for various capital improvements and has never defaulted in the payment of any of its debt or other obligations. Listed below is the District's total general obligation debt outstanding including the Bonds

<u>Series</u>	<u>Original Amount Issued</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
2008	\$5,500,000	08/01/2021	\$3,300,000
2009	6,000,000	08/01/2022	4,100,000
2010A	4,750,000	08/01/2023	2,275,000
2010B	8,200,000	08/01/2027	5,185,000
2011	17,900,000	08/01/2027	10,165,000
2013	13,500,000	08/01/2027	9,685,000
2014	9,000,000	08/01/2027	6,875,000
2016	<u>7,750,000</u>	08/01/2028	<u>7,750,000</u>
Total	\$72,600,000		\$49,335,000

## Debt Service Requirements to Maturity

The District schedules principal and interest payments at the time of the bond sales with constraints being general obligation debt capacity and expected property tax revenues and computed at the desired tax rate. Listed below is a summary of the currently scheduled principal and interest on the District's outstanding debt, as well as the proposed principal and interest payments on the Bonds.

(8/1) Year	<u>Current Requirements</u>			<u>Series 2016</u>			<u>Total Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$4,925,000	\$1,432,424	\$6,357,424				\$4,925,000	\$1,432,424	\$6,357,424
2017	4,755,000	1,257,183	6,012,183	\$600,000	3.00%	\$273,716	5,355,000	1,257,183	6,612,183
2018	4,095,000	1,087,865	5,182,865	735,000	3.00%	196,213	4,830,000	1,087,865	5,917,865
2019	3,625,000	955,454	4,580,454	600,000	3.00%	174,163	4,225,000	955,454	5,180,454
2020	3,745,000	836,712	4,581,712	600,000	3.00%	156,163	4,345,000	836,712	5,181,712
2021	4,000,000	709,884	4,709,884	600,000	3.00%	138,163	4,600,000	709,884	5,309,884
2022	3,475,000	559,748	4,034,748	675,000	3.00%	120,163	4,150,000	559,748	4,709,748
2023	2,450,000	426,663	2,876,663	655,000	3.00%	99,913	3,105,000	426,663	3,531,663
2024	2,450,000	342,708	2,792,708	625,000	3.00%	80,263	3,075,000	342,708	3,417,708
2025	2,650,000	264,758	2,914,758	665,000	3.00%	61,513	3,315,000	264,758	3,579,758
2026	2,650,000	180,470	2,830,470	665,000	2.00%	41,563	3,315,000	180,470	3,495,470
2027	2,765,000	93,320	2,858,320	665,000	2.00%	28,263	3,430,000	93,320	3,523,320
2028	-	-	-	<u>665,000</u>	<u>2.25%</u>	<u>14,963</u>	665,000	-	665,000
TOTAL	\$41,585,000	\$8,147,187	\$49,732,187	\$7,750,000		\$1,385,053	\$49,335,000	\$8,147,187	\$56,817,187

## Statement of Estimated Direct and Overlapping Debt

The following is a calculation which is useful to investors in assessing the debt load and per capita debt of the District payable from property taxes. In addition to outstanding debt of the District, the calculation takes into account debt attributable to taxing entities which is the responsibility of taxpayers within the boundaries of the District. Revenue bonds are payable from sources other than property taxes.

	2015 <u>Assessed Valuation</u>	G/O Debt <u>Outstanding</u>	Percent <u>Applicable</u>	<u>Amount</u>
State of New Mexico	\$58,412,964,620	\$389,270,000	1.43%	\$5,554,076
McKinley County	835,663,974	-	99.73%	-
University of New Mexico - Gallup Branch	835,663,974	17,530,000	99.73%	17,483,179
City of Gallup	345,833,833	1,410,000	100.00%	1,410,000
Gallup-McKinley Schools	833,431,975	49,335,000	100.00%	49,335,000
Total Direct & Overlapping				<u>\$73,782,255</u>
Ratio of Estimated Direct & Overlapping Debt to 2015 Assessed Valuation:				8.85%
Ratio of Estimated Direct & Overlapping Debt to 2015 Estimated Actual Valuation:				2.57%
Per Capita Direct & Overlapping Debt:				\$1,054.03
Population				70,000

# TAX BASE

## Analysis of Assessed Valuation

Assessed Valuation of property within the District is calculated as follows: Of the total estimated actual valuation of all taxable property in the District, 33 1/3% is legally subject to ad valorem taxes. After deduction of certain personal exemptions, the 2015 assessed valuation is \$833,431,975. The actual value of personal property within the District (see "Assessments" below) is determined by the County Assessor. The actual value of certain corporate property within the District (see "Centrally Assessed" below) is determined by the State of New Mexico, Taxation and Revenue Department, Property Tax Division. The analysis of Assessed Valuation follows:

Assessments	2015	2014	2013	2012	2011
Value of Land	\$148,019,438	\$148,358,145	\$145,118,439	\$142,814,272	\$142,368,694
Improvements	381,820,074	403,828,864	401,285,653	405,037,668	403,893,840
Personal Property	22,958,600	22,559,650	22,710,870	21,263,630	19,425,840
Manufactured Homes	16,212,560	17,400,900	17,297,780	16,397,780	16,045,510
Livestock	2,932,203	2,202,523	2,181,988	1,872,126	1,597,571
Assessor's Total Valuation	\$571,942,875	\$594,350,082	\$588,594,730	\$587,385,476	\$583,331,455
<b>Less Exemptions</b>					
Head of Family	\$6,617,600	\$6,832,060	\$6,983,290	\$7,031,010	\$7,131,880
Veterans	6,077,283	6,050,345	5,973,611	5,807,047	5,716,019
Other	108,994,156	124,940,677	125,105,230	122,036,019	120,960,296
Total Exemptions	\$121,689,039	\$137,823,082	\$138,062,131	\$134,874,076	\$133,808,195
<b>Assessors' Net Valuation</b>	\$450,253,836	\$456,527,000	\$450,532,599	\$452,511,400	\$449,523,260
<b>Centrally Assessed</b>	380,470,793	365,677,215	364,916,486	303,900,772	299,051,770
<b>Oil &amp; Gas <sup>(1)</sup></b>	2,707,346	2,990,800	1,985,115	1,715,365	1,647,098
<b>Total Assessed Valuation</b>	<u>\$833,431,975</u>	<u>\$825,195,015</u>	<u>\$817,434,200</u>	<u>\$758,127,537</u>	<u>\$750,222,128</u>
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Residential <sup>(2)</sup>	\$266,161,276	\$267,121,689	\$264,615,729	\$264,373,635	\$262,702,300
Non-Residential	564,563,353	555,082,526	550,833,356	492,038,537	485,872,730
Oil and Gas	2,707,346	2,990,800	1,985,115	1,715,365	1,647,098
	<u>\$833,431,975</u>	<u>\$825,195,015</u>	<u>\$817,434,200</u>	<u>\$758,127,537</u>	<u>\$750,222,128</u>

(1) Reflects oil and gas for the previous calendar year

(2) A method of increasing assessed valuation for residential property upon change of ownership of the property was declared unconstitutional under the New Mexico Constitution in an August, 2009 Second Judicial District Court decision. The effect of the Court decision on recent or future increases in residential property values is uncertain and the District makes no predictions in that regard. See "TAX BASE - Developments Limiting Residential Tax Increases."

Source: McKinley County Assessor's Office.

## History of Assessed Valuation

Listed below is a 10-year history of assessed valuation for the District compared with the City of Gallup and McKinley County. The tax base of the District has increased 32.4% since 2006 compared with 13.9% for the City of Gallup and 31.8% for McKinley County.

Tax Year	Gallup School District	City of Gallup	McKinley County
2006	629,249,791	303,670,060	631,844,633
2007	679,052,978	335,817,159	681,631,115
2008	681,028,691	343,068,683	682,908,365
2009	738,817,004	346,856,887	736,290,704
2010	726,633,778	351,833,741	727,985,769
2011	750,222,128	347,598,573	746,162,138
2012	758,127,537	351,782,943	760,499,095
2013	817,434,200	348,471,767	819,640,109
2014	825,195,015	349,755,694	828,647,705
2015	833,431,975	345,833,833	835,663,974

Source: McKinley County Assessor

## Major Taxpayers

Below is a three year history of the major taxpayers in the District. In 2015, the ten largest taxpayers in the District had a combined assessed valuation of \$349,419,243 which represents over 41% of the 2015 assessed valuation.

<u>Taxpayer</u>	<u>Business</u>	<u>2015 Assessed Valuation</u>	<u>% of District A.V.</u>
El Segundo Coal Company	Coal Mining	\$89,595,829	10.75%
Tri-State Generation	Public Utility	79,264,212	9.51%
Western Refinery Southwest	Refinery	73,345,332	8.80%
BN&SF Railway	Railway	40,879,975	4.91%
El Paso Natural Gas Co.	Public Utility	24,608,521	2.95%
Transwestern Pipeline Co.	Oil Transmission	13,660,471	1.64%
Sacred Wind Communications	Telephone	7,309,432	0.88%
PNM Electric	Public Utility	7,112,768	0.85%
Gas Company of New Mexico	Public Utility	6,869,036	0.82%
Lee Ranch Coal Company	Coal Mining	6,773,667	0.81%
<b>Total</b>		<b>\$349,419,243</b>	<b>41.93%</b>
<b>District's 2015 Assessed Valuation</b>		<b>\$833,431,975</b>	

## History of Major Taxpayers Centrally Assessed

Taxpayer	2015	% of District A.V.	2014	% of District A.V.	2013	% of District A.V.
El Segundo Coal Company	\$ 89,595,829	10.75%	\$ 77,560,329	9.40%	\$ 71,400,660	8.73%
Tri-State Generation	79,264,212	9.51%	67,582,947	8.19%	60,936,483	7.45%
Western Refinery Southwest	73,345,332	8.80%	76,943,859	9.32%	26,067,743	3.19%
BN&SF Railway	40,879,975	4.91%	36,200,307	4.39%	30,486,415	3.73%
El Paso Natural Gas Co.	24,608,521	2.95%	25,605,511	3.10%	28,592,867	3.50%
Transwestern Pipeline Co.	13,660,471	1.64%	13,443,130	1.63%	16,743,903	2.05%
Sacred Wind Communications	7,309,432	0.88%	7,309,432	0.89%	5,805,157	0.71%
PNM Electric	7,112,768	0.85%	-	0.00%	-	0.00%
Gas Company of New Mexico	6,869,036	0.82%	6,652,326	0.81%	6,599,560	0.81%
Lee Ranch Coal Company	6,773,667	0.81%	12,958,929	1.57%	15,643,536	1.91%
Conoco, Inc.	-	-	10,334,708	1.25%	10,785,635	1.32%
<b>Total</b>	<b>\$ 349,419,243</b>	<b>41.93%</b>	<b>\$ 334,591,478</b>	<b>40.55%</b>	<b>\$ 273,061,959</b>	<b>33.40%</b>
<b>District's Assessed Valuation</b>	<b>\$ 833,431,975</b>		<b>\$ 825,195,015</b>		<b>\$ 817,434,200</b>	

## Tax Rates

Article VIII, Section 2, of the New Mexico Constitution limits the total ad valorem taxes for operational purposes levied by all overlapping governmental units within the District to \$20.00 per \$1,000 of assessed value. This limitation does not apply to levies for public debt and levies for additional taxes if authorized at an election by a majority of the qualified voters of the jurisdiction voting on the question. The following table summarizes the tax situation on residential property for 2015-16 Fiscal Year and the previous four years. The District expects no change in the level of its taxes in the foreseeable future but is unable to predict what overlapping entities might do. A high level of taxation may impact the District's ability to repay bonds.

	2015	2014	2013	2012	2011
State of New Mexico	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
McKinley County	6.033	5.895	5.859	5.719	5.524
City of Gallup	5.738	5.603	5.589	5.435	5.250
Gallup-McKinley County Schools	<u>0.276</u>	<u>0.270</u>	<u>0.268</u>	<u>0.262</u>	<u>0.253</u>
Total	\$12.047	\$11.768	\$11.716	\$11.416	\$11.027

### Over 20 Mill Limit - Interest, Principal, Judgments, etc.

State of New Mexico	\$1.360	\$1.360	\$1.360	\$1.360	\$1.362
McKinley County	0.000	0.000	0.000	0.000	0.000
University of New Mexico - Gallup Branch	5.750	5.750	6.330	6.330	5.500
City of Gallup	1.487	1.113	1.502	1.717	1.414
Gallup-McKinley Schools	10.320	10.331	10.332	10.349	10.355
Rehoboth Christian Hospital	<u>3.000</u>	<u>3.000</u>	<u>3.000</u>	<u>2.000</u>	<u>2.000</u>
Total	\$21.917	\$21.554	\$22.524	\$21.756	\$20.631

### Total Levy

State of New Mexico	\$1.360	\$1.360	\$1.360	\$1.360	\$1.362
McKinley County	6.033	5.895	5.859	5.719	5.524
Gallup Branch Comm. College	5.750	5.750	6.330	6.330	5.500
City of Gallup	7.225	6.716	7.091	7.152	6.664
Gallup-McKinley Schools	10.596	10.601	10.600	10.611	10.608
Rehoboth Christian Hospital	3.000	3.000	<u>3.000</u>	<u>2.000</u>	<u>2.000</u>
Total Residential - Gallup	\$33.964	\$33.322	\$34.240	\$33.172	\$31.658
Total Non-Residential - Gallup	\$41.917	\$41.554	\$42.524	\$41.756	\$40.631
Total Residential in Unincorporated McKinley County	\$26.739	\$26.606	\$27.149	\$26.020	\$24.994
Total Non-Residential in Unincorporated McKinley County	\$32.780	\$32.791	\$33.372	\$32.389	\$31.567

Source: State of New Mexico, Department of Finance & Administration

## School Tax Rates

The following table summarizes the historical school tax levies on property within the District since the 2011 tax year (2011-12 fiscal years). The Two Mill Levy is renewed every six years, most recently on February 2, 2016. The Two Mill Levy is effective through the 2021 tax year.

Tax Year	Operational		Two Mill Levy		G/O Bonds	Total District	
	Resid.	Non-Resid.	Resid.	Non-Resid.		Resid.	Non-Resid.
2015	\$0.276	\$0.500	\$2.000	\$2.000	\$8.320	\$10.596	\$10.820
2014	0.270	0.500	2.000	2.000	8.331	10.601	10.831
2013	0.268	0.500	2.000	2.000	8.332	10.600	10.832
2012	0.262	0.500	2.000	2.000	8.349	10.611	10.849
2011	0.253	0.500	2.000	2.000	8.355	10.608	10.855

Source: New Mexico Department of Finance & Administration

## Yield Control Limitation

State law limits property tax increases from the prior property tax year. Specifically, no taxing entity may set a rate or impose a tax (excluding oil and gas production ad valorem and oil and gas production equipment ad valorem taxes) or assessment which will produce revenues which exceed the prior year's tax revenues from residential and non-residential property multiplied by a "growth control factor." The growth control factor is the percentage equal to the sum of (a) "percent change I" plus (b) the prior property tax year's total taxable property value plus "net new value", as defined by Statute, divided by such prior property tax year's total taxable property value, but if that percentage is less than 100%, then the growth control factor is (a) "percent change I" plus (b) 100%. "Percent change I" is based upon the annual implicit price deflator index for state and local government purchases of goods and services (as published in the United States Department of Commerce monthly publication entitled "Survey of Current Business," or any successor publication) and is a percent (not to exceed 5%) that is derived by dividing the increase in the prior calendar year (unless there was a decrease, in which case zero is used) by the index for such calendar year next preceding the prior calendar year. *The growth control factor applies to authorized operating levies and to any capital improvements levies, but does not apply to levies for paying principal and interest on public general obligation debt.*

## Developments Limiting Residential Property Tax Increases

In an effort to limit large annual increases in residential property taxes in some areas of the State (particularly the Santa Fe and Taos areas which have experienced large increases in residential property values in recent years), an amendment to the uniformity clause (Article VIII, Section 1) of the New Mexico Constitution was proposed during the 1997 Legislative Session. The amendment was submitted to voters of the State at the general election held on November 3, 1998 and was approved by a wide margin.

The amendment directs the Legislature to provide for valuation of residential property in a manner that limits annual increases in valuation. The limitation may be applied to classes of residential property taxpayers based on occupancy, age or income. Further, the limitations may be authorized statewide or at the option of a local jurisdiction and may include conditions for applying the limitations.

Bills implementing the constitutional amendment were enacted in 2001 and were codified as Sections 7-36-21.2 NMSA 1978 and 7-36-21.3 NMSA 1978.



Section 7-36-21.2 NMSA 1978 establishes a statewide limitation on residential property valuation increases beginning in tax year 2001. Annual valuation increases are limited to 3% over the prior year's valuation or 6.1% over the valuation from two years prior. Subject to certain exceptions, these limitations do not apply:

1. To property that is being valued for the first time;
2. To physical improvements made to the property in the preceding year;
3. When the property is transferred to a person other than a spouse, or a child who occupies the property as his principal residence and who qualifies for the head of household exemption on the property under the Property Tax Code;
4. When a change occurs in the zoning or use of the property; and
5. To property that is subject to the valuation limitations under Section 7-36-21.3 NMSA 1978.
6. On March 28, 2012, the New Mexico Court of Appeals upheld the constitutionality of a law capping residential valuation increases until a home changes ownership. The plaintiff appealed the case to the New Mexico Supreme Court. The Supreme Court affirmed the decision by the Court of Appeals. The New Mexico Legislature has brought up the issue of the disparity in valuations in the past several years, but has not enacted any of the bills into law. To the extent that court or legislative action is taken or a further constitutional amendment is passed amending the valuation provisions, it could have a material impact on the valuation of residential property in the District.

Section 7-36-21.3 NMSA 1978 places a limitation on the increase in value for property taxation purposes for single-family dwellings occupied by low-income owners who are sixty-five years of age or older or who are disabled. The statute fixes the valuation of the property to the valuation in the year that the owner turned 65 or became disabled. The Section 7-36-21.3 limitation does not apply:

- To property that is being valued for the first time;
- To a change in valuation resulting from physical improvements made to the property in the preceding year; and
- To a change in valuation resulting from a change in the zoning or permitted use of the property in the preceding year.

## Tax Collections

General (ad valorem) taxes for all units of government are collected by the county treasurer and distributed monthly to the various political subdivisions to which they are due.

Property taxes are due in two installments. The first half installment is due on November 10 and becomes delinquent on December 10. The second half installment is due on April 10 and becomes delinquent on May 10.

Collection statistics for all political subdivisions for which each county treasurer collects taxes are presented below:

Property Tax Collections for McKinley County						
Tax Year	Fiscal Year	Net Taxes Charged to Treasurer	Current Tax Collections <sup>(1)</sup>	Current Collections as a % of Net Levied	Current/Delinquent Tax Collections <sup>(2)</sup>	Current/Delinquent Collections as a % of Net Levied
2015	15/16	\$ 28,510,346	\$ 7,034,078	24.67%	\$ 7,034,078	24.67%
2014	14/15	28,188,789	27,400,933	97.21%	27,787,950	98.58%
2013	13/14	28,454,944	27,833,520	97.82%	28,591,480	100.48%
2012	12/13	25,769,477	24,869,525	96.51%	25,646,901	99.52%
2011	11/12	24,766,980	23,926,057	96.60%	25,070,050	100.00%
2010	10/11	24,579,756	22,245,313	90.50%	24,619,274	100.00%
2009	09/10	24,504,078	22,782,120	92.97%	24,479,415	99.90%
2008	08/09	23,003,484	21,683,601	94.26%	23,177,842	100.00%
2007	07/08	22,772,450	21,809,992	95.77%	22,923,276	100.00%
2006	06/07	21,024,109	20,093,146	95.57%	21,054,544	100.00%

(1) Current collections through June 30 of each complete tax year

(2) As of November 30, 2015

Source: McKinley County Treasurer's Office

## Interest on Delinquent Taxes

Pursuant to Section 7-38-49, NMSA 1978, if property taxes are not paid for any reason within thirty (30) days after the date they are due, interest on the unpaid taxes shall accrue from the thirtieth (30th) days after they are due until the date they are paid. Interest accrues at the rate of one percent (1%) per month or any fraction of a month.

## Penalty for Delinquent Taxes

Pursuant to Section 7-38-50, NMSA 1978, if property taxes become delinquent, a penalty of one percent (1%) of the delinquent tax for each month, or any portion of a month, they remain unpaid shall be imposed, but the total penalty shall not exceed five percent (5%) of the delinquent taxes. The minimum penalty imposed is \$5.00. A county can suspend application of the minimum penalty requirement for any tax year.

If property taxes become delinquent because of an intent to defraud by the property owner, fifty percent (50%) of the property tax due or fifty dollars (\$50.00), whichever is greater, shall be added as a penalty.

## Remedies Available for Non-Payment of Taxes

Pursuant to Section 7-38-47, NMSA 1978, property taxes are the personal obligation of the person owning the property on the date on which the property was subject to valuation for property taxation purposes. A personal judgment may be rendered against the taxpayer for payment of taxes that are delinquent, together with any penalty and interest on the delinquent taxes.

Taxes on real property are a lien against the real property. Pursuant to Section 7-38-65, NMSA 1978, delinquent taxes on real property may be collected by selling the real property on which taxes are delinquent.

Pursuant to Section 7-38-53, NMSA 1978, delinquent property taxes on personal property may be collected by asserting a claim against the owner(s) of the personal property for which taxes are delinquent.

## **THE DISTRICT**

The District is a political subdivision of the State organized for the purpose of operating and maintaining an education program for school-age children residing within its boundaries.

The District is located in western New Mexico, 15 miles east of the Arizona border. The District encompasses approximately 4,957 square miles with an estimated population of 70,000. The District operates 19 elementary schools, 7 middle schools, 8 high schools, 1 alternative school and 1 local charter school.

### **School District Powers**

Pursuant to Chapter 27, Laws 2004 passed in the 2004 legislative session, the District's powers are subject to regulations promulgated by the Secretary of the New Mexico Public Education Department ("PED") with the advice of the Public Education Commission. The Secretary of PED (the "Secretary") is responsible for control, management and direction of all public schools. The Public Education Commission is comprised of ten members, elected from public education districts for staggered four-year terms. Generally, the powers of the PED include determining policy of operations of all public schools; designating courses of instruction for all public schools in the State; adopting regulations for the administration of all public schools; determining qualifications for teachers, counselors, and their assistants; and prescribing minimum educational standards for all public schools. The PED may order the creation of new school districts or may require consolidation of school districts.

### **Management**

The District Board (the "Board"), subject to regulations of the Secretary, develops educational policies for the District. The local school Board shall have the following powers or duties: 1) subject to the rules of the department, develop educational policies for the school; 2) employ a superintendent of schools and fix the superintendent's salary; 3) review and approve the annual school budget; 4) acquire, lease and dispose of property; 5) have the capacity to sue and be sued; 6) acquire property by eminent domain; 7) issue general obligation bonds of the school district; 8) provide for the repair of and maintain all school property; 9) subpoena witnesses and documents in connection with a hearing concerning powers of the school board; 10) except for expenditures for salaries, contract for expenditure of money; 11) adopt rules pertaining to the administration of all powers or duties of the school board; 12) accept or reject any charitable gift, grant, devise or bequest; 13) offer and pay rewards for information leading to the arrest and conviction of offenders in case of theft, defacement or destruction of school property; and 14) give prior approval for any educational program in a public school that is to be conducted, sponsored, carried on or caused to be carried on by a private organization. Members serve without compensation for four-year terms of office in non-partisan elections held every two years on the first Tuesday in February. The current District Board Members are:

Titus J. Nez, President, term expires March 1, 2017

Kevin Mitchell, Vice President; term expires March 1, 2019

Priscilla Manuelito, Secretary; term expires March 1, 2019

Lynn Huenamann, Member, term expires March 1, 2017

Joe Menini, Member, term expires March 1, 2017

The Superintendent of Schools is selected by and serves at the discretion of the Board. All other staff members are selected by the Superintendent. The current Administrative Staff is:

Frank Chiapetti – *Superintendent*. Mr. Chiapetti has served as Superintendent to the District since July 2013. As Superintendent, Mr. Chiapetti serves as Chief Executive Officer for administration of the District's affairs. He has over twenty one years of public education experience in New Mexico in various positions including teaching and administration. All of these years were in the Gallup-McKinley County School District. Immediately preceding Mr. Chiapetti's selection as Superintendent, he was the Principal of Miyamura High School, in Gallup, for eight years. Mr. Chiapetti obtained his Bachelor's Degree in Finance and Management from New Mexico State University and his Master's Degree in Teaching Special Education and Educational Leadership from Western New Mexico University.

Mike Hyatt – *Associate Superintendent of Personnel and Business Services*. Mr. Hyatt began his position as Associate Superintendent in July 2014. Mr. Hyatt has sixteen years of public education experience in New Mexico in various positions including teaching and administration. Eleven of these years were in the Gallup-McKinley County School District. Before Mr. Hyatt began his Associate Superintendent position with Gallup-McKinley County Schools this year, he was the Principal of a high school in another New Mexico school district. He also fulfilled Acting Superintendent's and Interim Superintendent's duties during his tenure as Principal. Mr. Hyatt holds a Master's Degree in Business from Western New Mexico University.

Pauletta White – *Associate Superintendent of Student Support Services and Support Services*. Mrs. White began her position as Associate Superintendent in July 2014. Mrs. White has been the Principal of a middle school and a high school within the District over the past ten years, before she started her new position this year. She has served in education for a total of twenty seven years, including teaching, counseling and administration in New Mexico and Arizona. Mrs. White holds a Master's Degree in Educational Administration and Counseling, and is currently a doctoral candidate through New Mexico State University.

Jvanna Hanks II – *Chief Financial Officer*. Ms. Hanks began her position as Chief Financial Officer in July 2014. Ms. Hanks has served Gallup-McKinley County Schools through various positions in the Business Services Department since 2002. Before her current position, Ms. Hanks served as the Director of Fiscal Services for one year, as the Controller for seven years, and as a Budget Analyst for one year. Ms. Hanks holds a Bachelor's Degree and Master's Degree from the University of New Mexico.

## **Insurance**

The District is a member of the State Public School Insurance Authority (the "Insurance Authority") which was established to provide a comprehensive insurance program for school districts, board members and retirees and public school employees and retirees with the State. The Insurance Authority provides risk related insurance to the District such as worker's compensation, property and casualty insurance, general automobile and fire insurance and general liability insurance for the District, its property, its board members, and employees. The Insurance Authority also provides health, life and long-term disability insurance to the District.

## **Intergovernmental Agreements**

The District has entered into various joint powers agreements with other governmental entities in the State which permit all the governmental entities to jointly provide certain equipment purchases and other services cooperatively.

## **School Property**

Currently, the District operates and maintains a variety of facilities in meeting its obligations to provide an educational program for the school-aged children residing within its boundaries. The District operates 36 school sites, including 19 elementary schools, 7 middle schools, 8 high schools, 1 alternative school and 1 local charter school. In addition to the school buildings and their contents, the District owns the land upon which school buildings and grounds are located, approximately 79 acres of additional vacant property, the District administration building, a maintenance shop, and over 270 teacherage units. The district also owns over 150 portable classrooms located at various school sites throughout the district.

In addition to the regular educational program of grades kindergarten through 12, the District offers vocational programs in home economics, industrial education, and business education. The District offers state-funded non-special education pre-kindergarten programs, special education services, Title I remedial education, bilingual education and Indian education.

### **Student Enrollment**

The District's enrollment for the current year and prior four years is as follows:

<u>School Year</u>	<u>40th Day Enrollment <sup>(1)</sup></u>	<u>% Change from Prior Year</u>
2011-12	11,715	-0.04%
2012-13	11,398	-2.71%
2013-14	11,251	-1.29%
2014-15	11,131	-1.07%
2015-16	11,173	0.38%

(1) Includes K-12 plus non-special education Pre-K

Source: New Mexico Public Education Department

### **Accreditation**

The District as a whole, is accredited by the PED. The District is subject to periodic monitoring by the PED to ensure continued compliance with accreditation standards. The District was accredited in 2013 and its next scheduled accreditation process will take place in 2016.

## FINANCES OF THE EDUCATIONAL PROGRAM

The basic format for the financial operation of the District is provided by the PED through the School Budget Planning Division which is directed by State law to supervise and control the preparation of all budgets of all school districts. The District receives revenue from a variety of local, State, and federal sources, the most important of which are described below. New Mexico's public school finance laws are subject to review and examination through the judicial process, and are subject to legislative changes as well. As a result, the District cannot anticipate with certainty all of the factors which may influence the financing of its future activities. There is no assurance that there will not be any change in, interpretation of, or addition to the applicable laws, provisions, and regulations which would have a material effect, directly or indirectly, on the affairs of the District.

### Sources of Revenue for General Fund

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided by school tax levy, state equalization and transportation funds, state instructional material allocations, and earnings from investments. Expenditures include all costs associated with the daily operations of the schools except for those items included in other funds. The sources of revenue for the District's General Fund are:

Local Revenues - Local revenues are a source of revenue to the District composed, in part, by a property tax annually levied on and against all of the taxable property within the District for operational purposes. The levy is limited by State law to a rate of 50 cents for each \$1,000 of net taxable value of taxable property. Other sources of local revenues include interest income earned on the District's investments, rentals and sale of property. In the fiscal year 2015, the District received \$1,287,020 from local sources.

Federal Revenues - Another source of annual revenue for the District's General Fund is derived from indirect costs of direct federal grant funds related to vocational, special education, and various other programs and P.L. 874 federal impact moneys paid to the District in lieu of taxes on federal land located in the District. In fiscal year 2015, the District received \$30,107,573 in federal revenues for its General Fund.

State Revenues - The District's largest source of annual revenue is derived from the State equalization guarantee payments described below. During fiscal year 2015, the District received \$71,057,058 from state sources. Such payments represented approximately 69.4% actual fiscal year 2015 General Fund revenues.

### State Equalization Guarantee

The State Legislature enacted New Mexico's current public school funding formula in 1974. Designed to distribute operational funds to local school districts in an objective manner, the funding formula is based upon the educational needs of individual students and costs of the programs designed to meet those needs. Program cost differentials are based upon nationwide data regarding the relative costs of various school programs, as well as data specific to New Mexico. The objectives of the formula are (1) to equalize educational opportunity statewide (by crediting certain local and federal support and then distributing state support in a objective manner) and (2) to retain local autonomy in actual use of funds by allowing funds to be used in local districts at the discretion of local policy making bodies. The formula is divided into three basic parts:

1. Educational program units that reflect the different costs of identified programs;
2. Training and experience units that attempt to provide additional funds so that districts may hire and retain better educated and more experienced instructional staff; and
3. Size adjustment units that recognize local school and community needs, economies of scale, types of students, marginal cost increases for growth in enrollment from one year to the next, and adjustments for the creation of new districts.

SEG payments are made monthly and prior to June 30 each fiscal year. The calculation of the distribution is also based on the local and federal revenues received from July 1 of the previous fiscal year through May 31 of the fiscal year for which the State distribution is being computed. In the event that a district receives more SEG funds than its entitlement, the district must make a refund to the State's general fund.

Even though the current public school funding formula has been in place for more than two decades, some districts have indicated a concern about the fact that some districts receive less revenue per pupil compared to others. In response to these concerns, the Legislature, the Governor, and the State Board of Education authorized an independent, comprehensive study of the formula that was conducted in 1996. In its principal finding the independent consultant concluded, ". . .When evaluated on the basis of generally accepted standards of equity, the New Mexico public school funding formula is a highly equitable formula. . . .[S]pending disparities are less than in other states and statistically insignificant."

Despite the acknowledged equity of the formula, the independent consultant pointed out a strong perception of unfairness in the so-called "density" factor and in the training and experience computations of some districts. As a result, the Legislature enacted the following changes to the funding formula:

- Required that special education students be counted with regular students with "add-on" weights assigned depending upon the severity of the disability;
- Changed weights for special education ancillary services and included diagnosticians in ancillary services computations; and
- Repealed the so-called "density" factor and replaced it with an at-risk factor that is available to all school districts.

SEG payments for the budgeted past five fiscal years are as follows:

<u>Year</u>	<u>Program Unit Value</u>	<u>Number of Program Units</u>	<u>SEG Payment From Audit</u>
2015-16	\$4,027.75	21,314	\$85,849,208
2014-15	4,005.75	20,852	83,528,063
2013-14	3,817.55	20,960	62,630,402
2012-13	3,668.18	20,937	57,739,981
2011-12	3,585.97	20,781	55,676,526

*Source: New Mexico Public Education Department and the District.*

The PED receives Federal mineral-leasing funds from which it makes annual allocations to the school district for purchasing text books. In 2014-15, the District received \$ 798,258 of cash and credit for textbook purchases.

The District is also reimbursed by the State for the costs of transporting pupils to and from school pursuant to the Act. These payments are based upon a formula consisting of the number of students per square mile that are transported. In 2014-15 the District received \$5,657,097 for transportation purposes.

## District Budget Process

Each year, the school district budget process begins with the educational appropriations passed by the Legislature and signed into law by the Governor. The actual budget process follows specific steps set forth in the Public School Finance Act:

- Before April 15 of each year, the District must submit an estimated budget for the next school year to PED. If the District fails to submit a budget, PED must prepare a District budget for the ensuing year.
- Before June 20 of each year, the District Board must hold a public hearing to fix the estimated budget for the next school year.
- On or before July 1 of each year, PED must approve and certify an approved operating budget for use by the District board.

No school board, officer or employee of a school district may make an expenditure or incur any obligation for the expenditure of public funds unless that expenditure is made in accordance with an operating budget approved by PED. This requirement, however, does not prohibit the transfer of funds between line items within a series of a budget. Final budgets may not be altered or amended after approval by PED except upon the District's request to PED. An instance in which such requests will be approved include a change within the budget that does not increase the total amount of the budget. Additional budget items may also be approved if the District is to receive unanticipated revenues. Finally, if it becomes necessary to increase the District's budget by more than \$1,000 for any reason other than those listed above, PED may order a special public hearing to consider the requested increase.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Debt Service Fund with appropriations lapsing at year end. Total expenditures of any function category may not exceed categorical appropriations.

To conform to PED's requirements, budgets for all funds of the District are adopted on the cash basis of accounting except for state instructional material credit. State instructional material funds provide for free textbooks from PED. As a result, budgets are not prepared in conformity with generally accepted accounting principles (GAAP), and budgetary comparisons are presented on the (Non-GAAP) basis of accounting.



## Statement of Net Assets – All Funds

The following is a history of the District's Statement of Net Assets for informational purposes. See financial statements for the fiscal year ending June 30, 2015 attached as Appendix B. The complete audit report for the fiscal year ending June 30, 2015 and the last four years can be downloaded from the State Auditor's website using the following link [http://www.saonm.org/audit\\_reports](http://www.saonm.org/audit_reports).

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES					
	06/30/2011	06/30/2012	06/30/2013	06/30/2014	06/30/2015
<b>Assets</b>					
Current Assets					
Cash and cash equivalents	\$37,126,362	\$28,830,540	\$27,768,195	\$39,020,988	\$55,704,191
Taxes receivable	1,019,866	680,154	596,105	532,540	533,961
Other receivables	384,876	711,981	734,902	13,631	8,508
Due from other governments	3,167,801	8,046,486	9,020,300	12,034,349	17,212,421
Inventory	566,577	533,660	586,569	612,452	994,673
<b>Total Current Assets</b>	<b>\$42,265,482</b>	<b>\$38,802,821</b>	<b>\$38,706,071</b>	<b>\$52,213,960</b>	<b>\$74,453,754</b>
Non current assets					
Restricted cash and cash equivalents	8,766,276	8,523,488	9,196,608	11,862,628	11,813,371
Restricted investment	-	-	-	-	1,958,571
Capital assets	455,326,590	473,655,595	486,250,119	491,121,658	509,332,380
Bond issuance costs	181,239	293,859	267,514	116,157	153,538
Less: accumulated depreciation	(107,032,062)	(112,428,112)	(121,978,321)	(132,103,507)	(142,802,183)
<b>Total Noncurrent assets</b>	<b>357,242,043</b>	<b>370,044,830</b>	<b>373,735,920</b>	<b>370,996,936</b>	<b>380,455,677</b>
<b>Total Assets</b>	<b>\$399,507,525</b>	<b>\$408,847,651</b>	<b>\$412,441,991</b>	<b>\$423,210,896</b>	<b>\$454,909,431</b>
<b>Deferred Outflow of Resources</b>					
Employer contributions subsequent to the measurement date	-	-	-	-	\$9,437,099
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$399,507,525</b>	<b>\$408,847,651</b>	<b>\$412,441,991</b>	<b>\$423,210,896</b>	<b>\$464,346,530</b>
<b>Liabilities</b>					
Current Assets					
Accounts payable	\$1,330,580	\$1,075,834	\$1,539,091	\$1,156,234	\$4,520,247
Accrued expenses	3,615,780	3,379,363	2,956,986	6,307,883	6,683,757
Accrued interest	-	-	-	806,508	866,255
Deposits Payable	-	-	-	48,225	56,775
Accrued compensated absences	441,995	350,525	340,474	341,831	359,773
Deferred revenue	-	-	-	-	-
Due to other funds	-	353,609	384,582	475,348	291,437
Current portion of long-term debt	7,221,287	6,555,000	6,965,000	6,680,000	7,995,000
<b>Total Current Liabilities</b>	<b>\$12,609,642</b>	<b>\$11,714,331</b>	<b>\$12,186,133</b>	<b>\$15,816,029</b>	<b>\$20,773,244</b>
Noncurrent Liabilities					
General obligation bonds	\$61,887,809	\$63,404,632	\$56,401,680	\$58,410,000	\$59,415,000
Bond Underwriter Premiums	-	-	-	1,112,725	1,551,615
Revenue bonds	-	-	-	-	-
Net pension liability	-	-	-	-	137,629,661
Accrued compensated absences	-	-	-	-	159,245
<b>Total Noncurrent liabilities</b>	<b>\$61,887,809</b>	<b>\$63,404,632</b>	<b>\$56,401,680</b>	<b>\$59,522,725</b>	<b>\$198,755,521</b>
<b>Total Liabilities</b>	<b>\$74,497,451</b>	<b>\$75,118,963</b>	<b>\$68,587,813</b>	<b>\$75,338,754</b>	<b>\$219,528,765</b>
<b>Deferred Inflow of Resources</b>					
Change in proportion	-	-	-	-	7,349,283
Actuarial experience	-	-	-	-	2,050,205
Investment experience	-	-	-	-	\$12,511,195
<b>Total Deferred Inflow of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$21,910,683</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	\$279,232,077	\$283,711,526	\$301,141,798	\$303,801,061	\$314,956,542
Restricted for:					
Debt service	9,249,672	7,774,137	9,722,923	22,468,286	11,314,168
Capital projects	6,760,067	5,340,534	8,008,173	4,052,038	7,165,876
Special revenue	13,749,769	13,319,155	14,386,948	14,712,242	18,081,793
Unrestricted				2,838,515	(128,611,297)
Undesignated	16,018,489	23,583,336	10,594,336	-	-
<b>Total Net Assets</b>	<b>\$325,010,074</b>	<b>\$333,728,688</b>	<b>\$343,854,178</b>	<b>\$347,872,142</b>	<b>\$222,907,082</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$399,507,525</b>	<b>\$408,847,651</b>	<b>\$412,441,991</b>	<b>\$423,210,896</b>	<b>\$464,346,530</b>

Source: The figures above have been extracted from the District's audited financial statements. Such figures are excerpts only and do not purport to be complete. A portion of the independent audit report for year ended June 30, 2015 is attached in Appendix B.

## Statement of Activities – All Funds

The following is a history of the District's Statement of Activities. See financial statements for the fiscal year ending June 30, 2015 attached as Appendix B. The complete audit report for the fiscal year ending June 30, 2015 and the last four years can be downloaded from the State Auditor's website using the following link [http://www.saonm.org/audit\\_reports](http://www.saonm.org/audit_reports).

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES					
	06/30/11	06/30/12	06/30/13	06/30/14	06/30/15
Instruction:					
Direct Instruction	<u>(\$26,440,384)</u>	<u>(\$32,154,293)</u>	<u>(\$33,318,808)</u>	<u>(\$40,054,107)</u>	<u>(\$27,483,913)</u>
Total Instruction	<u>(\$26,440,384)</u>	<u>(\$32,154,293)</u>	<u>(\$33,318,808)</u>	<u>(\$40,054,107)</u>	<u>(\$27,483,913)</u>
Support services:					
Instructional support	\$0	\$0	\$0	\$0	\$0
Student support services	(\$4,298,150)	(\$4,664,673)	(\$4,483,130)	(\$5,624,176)	(\$3,973,719)
Instruction support services	(\$1,691,962)	(\$2,330,139)	(\$1,822,141)	(\$1,930,411)	(\$1,304,265)
General administration	(600,341)	(623,169)	(686,435)	(753,588)	(457,256)
School administration	(2,309,071)	(2,899,890)	(2,996,395)	(3,734,737)	(2,140,294)
Central services	(1,358,665)	(1,600,829)	(1,565,028)	(2,117,196)	(1,341,940)
Business/Support services	(3,772)	(105,806)	(56,669)	(33,933)	-
Operation & maintenance of plant	(5,806,309)	(7,841,311)	(7,921,359)	(10,389,133)	(6,156,961)
Pupil Transportation	(1,905,730)	(1,108,693)	(718,458)	(756,533)	(219,999)
Food services	(69,742)	355,360	229,685	177,721	560,535
Community services	-	-	(22,335)	(24,262)	(45,767)
Interest on long-term debt	<u>(2,518,576)</u>	<u>(2,189,507)</u>	<u>(1,638,204)</u>	<u>(1,928,648)</u>	<u>(1,854,066)</u>
Total governmental activities	<u>(\$47,002,702)</u>	<u>(\$55,162,950)</u>	<u>(\$54,999,277)</u>	<u>(\$67,169,003)</u>	<u>(\$44,417,645)</u>
Revenues:					
Taxes					
Property taxes for operating programs	297,578	316,024	320,395	354,126	353,969
Property taxes for debt services	6,059,046	6,360,357	6,407,081	6,932,440	6,918,518
Property taxes for capital projects	1,448,055	1,522,449	1,534,762	1,663,983	1,660,869
Oil & gas taxes	19,220	14,812	28,254	17,586	22,685
Federal and state aid	52,444,788	55,676,526	56,782,452	62,630,402	63,296,435
Interest and investment earnings	14,890	9,956	9,681	12,518	11,966
Loss on disposal of assets	(386,866)	(91,621)	(17,861)	(187,845)	(78,940)
Remittal of fund balance	-	-	-	-	(162,847)
Miscellaneous	<u>35,771</u>	<u>73,061</u>	<u>60,004</u>	<u>31,270</u>	<u>60,250</u>
Subtotal, general revenues	<u>59,932,482</u>	<u>63,881,564</u>	<u>65,124,768</u>	<u>71,454,480</u>	<u>72,082,905</u>
Excess (deficiency) of revenues over expenses	<u>12,929,780</u>	<u>8,718,614</u>	<u>10,125,491</u>	<u>4,285,477</u>	<u>27,665,260</u>
Changes in net assets	12,929,780	8,718,614	10,125,491	4,285,477	27,665,260
Net assets, beginning	312,080,294	325,010,074	333,728,688	343,586,665	347,872,142
Restatement (Note 17)	-	-	-	-	(152,630,320)
Nets assets, ending	<u>\$325,010,074</u>	<u>\$333,728,688</u>	<u>\$343,854,179</u>	<u>\$347,872,142</u>	<u>\$222,907,082</u>

Source: The figures above have been extracted from the District's audited financial statements. Such figures are excerpts only and do not purport to be complete. A portion of the independent audit report for year ended June 30, 2015 is attached as Appendix B.

## Balance Sheet – General Fund Only

The following is a history of the District's General Fund Balance Sheet. The General Fund includes Operational, Transportation and Instructional Materials. See financial statements for the fiscal year ending June 30, 2015 attached as Appendix B. The complete audit report for the fiscal year ending June 30, 2015 and the last four years can be downloaded from the State Auditor's website using the following link [http://www.saonm.org/audit\\_reports](http://www.saonm.org/audit_reports).

BALANCE SHEET - GENERAL FUND					
	06/30/11	06/30/12	06/30/13	06/30/14	06/30/15
<b>ASSETS:</b>					
Cash & investments	\$ 6,817,529	\$ 3,403,647	\$ 6,740,507	\$ 9,519,067	\$ 19,640,363
Accounts receivable					
Taxes	39,381	23,707	19,663	17,131	17,738
Due from other governments	-	-	-	511,665	2,520,156
Interfund receivables	3,335,456	711,981	723,086	10,290,898	7,183,144
Other	370,171	7,846,601	7,138,403	8,361	6,403
Inventory	406,677	401,751	527,350	532,341	571,390
<b>Total Assets</b>	<b>\$ 10,969,214</b>	<b>\$ 12,387,687</b>	<b>\$ 15,149,009</b>	<b>\$ 20,879,463</b>	<b>\$ 29,939,194</b>
<b>LIABILITIES AND EQUITY:</b>					
Accounts payable	426,740	405,998	701,824	677,712	715,004
Deposits payable	-	-	-	48,225	56,775
Accrued expenses	1,899,957	2,451,648	1,813,884	4,855,704	5,265,542
Accrued compensated absences	-	-	-	-	-
Interfund payables				150,682	74,362
Deferred revenue - property taxes	16,437	13,754	11,926	10,752	10,443
<b>Total Liabilities</b>	<b>\$ 2,343,134</b>	<b>\$ 2,871,400</b>	<b>\$ 2,527,634</b>	<b>\$ 5,743,075</b>	<b>\$ 6,122,126</b>
<b>EQUITY:</b>					
Fund balances:					
Reserved for inventory	\$ 406,677	\$ 401,751	\$ 527,350	\$ 532,341	\$ 571,390
Reserved for educational purposes	-	-	223,019	206,786	900,292
Reserved for textbook credit					
Unreserved					
Unreserved, designated for next year's expenditures	-	-	-	3,402,869	5,852,318
Unreserved, undesignated - General Fund	8,219,403	9,114,536	11,871,006	10,994,392	16,493,068
<b>Total Equity</b>	<b>\$ 8,626,080</b>	<b>\$ 9,516,287</b>	<b>\$ 12,621,375</b>	<b>\$ 15,136,388</b>	<b>\$ 23,817,068</b>
<b>Total Liabilities and Equity</b>	<b>\$ 10,969,214</b>	<b>\$ 12,387,687</b>	<b>\$ 15,149,009</b>	<b>\$ 20,879,463</b>	<b>\$ 29,939,194</b>

Source: The figures above have been extracted from the District's audited financial statements. Such figures are excerpts only and do not purport to be complete. A portion of the independent audit report for year ended June 30, 2015 is attached as Appendix B.

## Statement of Revenues, Expenditures & Changes in Fund Balances – General Fund Only

The following is a history of the District's General Fund Statement of Statement of Revenues, Expenditures & Changes in Fund Balances. The General Fund includes Operational, Transportation and Instructional Materials. See financial statements for the fiscal year ending June 30, 2015 attached as Appendix B. The complete audit report for the fiscal year ending June 30, 2015 and the last four years can be downloaded from the State Auditor's website using the following link [http://www.saonm.org/audit\\_reports](http://www.saonm.org/audit_reports).

Statement of Revenues and Expenditures and Changes in Fund Balance					
	<u>06/30/11</u>	<u>06/30/12</u>	<u>06/30/13</u>	<u>06/30/14</u>	<u>06/30/15</u>
<b>Revenues:</b>					
Local Sources	\$1,089,992	\$1,323,394	\$1,210,340	\$1,245,386	\$1,287,020
State Sources	57,980,077	62,195,516	64,967,528	68,490,748	71,057,058
Federal Sources	<u>32,220,664</u>	<u>26,403,711</u>	<u>27,211,142</u>	<u>23,630,953</u>	<u>30,107,573</u>
Total Revenues	\$91,290,733	\$89,922,621	\$93,389,010	\$93,367,087	\$102,451,651
<b>Expenditures:</b>					
Direct Instruction	\$50,419,226	\$49,121,486	\$50,264,892	\$49,416,619	\$51,958,701
Student support services	4,027,358	3,926,507	3,945,544	4,165,052	4,511,055
Instruction support services	1,118,866	2,430,954	2,442,449	1,803,488	1,975,150
General administration support services	769,540	539,745	647,764	625,736	544,933
School administration support services	6,746,183	6,587,177	6,654,433	6,755,877	6,632,011
Central services	3,365,741	2,816,827	2,538,488	3,060,411	2,997,962
Pupil Transportation	5,118,446	4,741,141	5,013,161	4,570,463	5,326,048
Operation & Maintenance of Plant	15,756,761	16,546,553	16,152,046	16,335,098	16,028,089
Business/Support Services	11,756	-	130,004	-	-
Facilities, acquisition & construction	-	-	-	-	-
Capital Outlay	560,364	223,828	40,801	113,189	380,422
Other support services	<u>-</u>	<u>38,485</u>	<u>-</u>	<u>62,705</u>	<u>127,771</u>
Total Expenditures	\$87,894,241	\$86,972,703	\$87,829,582	\$86,908,638	\$90,482,142
Excess (Deficiency) of Revenues over Expenditures	<u>\$3,396,492</u>	<u>\$2,949,918</u>	<u>\$5,559,428</u>	<u>\$6,458,449</u>	<u>\$11,969,509</u>
Other Financing Sources (Uses)	(5,270,440)	(2,059,711)	(2,454,340)	(3,943,436)	(3,222,418)
Fund Balance-Beginning	\$10,500,028	\$8,626,080	\$9,516,287	\$12,621,375	\$15,136,388
Fund Balance - restatement (note 17)	-	-	-	-	(66,411)
<b>Fund Balance-Ending</b>	<u><b>\$8,626,080</b></u>	<u><b>\$9,516,287</b></u>	<u><b>\$12,621,375</b></u>	<u><b>\$15,136,388</b></u>	<u><b>\$23,817,068</b></u>

Source: The figures above have been extracted from the District's audited financial statements. Such figures are excerpts only and do not purport to be complete. A portion of the independent audit report for year ended June 30, 2015 is attached as Appendix B.

## Other Funds Maintained by the District

Bond Building Capital Projects Fund. This fund is used to account for bond proceeds plus any income earned thereon. The proceeds are restricted for the purpose of making additions to and furnishing of school buildings, purchasing or improving school grounds or any combination thereof, as approved by voters of the District.

Special Revenue Bond Capital Projects Fund. This fund is used to account for bond proceeds and any income thereon. The proceeds are restricted for the purpose of making additions to buildings or building teacherage, approved by the voters of the District.

Debt Service Fund. The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Public School Capital Outlay Fund. This fund is used to account for proceeds from taxes for the cost of improvement of land, buildings, and purchase of equipment.

Agency Fund. The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for individuals, private organization, other governments and/or other funds.

## Employees and Retirement Plan

The District employs 1,826 permanent employees of which 71.25 are administrators, 1,044 are teachers and other professional instructional personnel, 186.25 are instructional assistants, and 524.5 are support and administrative staff.

### ERA Pension Plan

Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act ("ERA") (Chapter 22, Article 11 NMSA 1978.) The Educational Retirement Board is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, and cost-of-living adjustments to plan members and beneficiaries. ERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERA, P.O. Box 26129, Santa Fe, New Mexico 87502.

Following is a partial history of employer and employee contributions statewide and average asset balance of the retirement fund.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Employer</u> <u>Contributions</u>	<u>Employee</u> <u>Contributions</u>	<u>Average Asset</u> <u>Balance</u>
2005	\$197,872,532	\$169,099,212	\$7,457,547,183
2006	226,479,332	178,220,782	7,813,888,383
2007	255,853,194	193,657,706	8,591,417,402
2008	290,846,065	201,916,230	9,272,832,328
2009	323,685,497	212,014,023	9,366,271,312
2010	313,276,296	250,666,650	9,431,321,589
2011	308,367,952	247,407,988	9,642,229,673
2012	253,845,277	289,852,094	9,606,304,017
2013	299,657,530	248,785,187	10,358,058,861
2014	362,462,537	268,693,991	11,442,171,449

*Source: State of New Mexico Educational Retirement Board*

## Funding Policy

### ***Contributions:***

The contribution requirements of plan members and the District and the Charter School are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2015 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. The District's contributions to ERB for the years ended June 30, 2014 and 2013 were \$8,741,917 and \$7,694,454, respectively which equal the amount of the required contributions for each fiscal year. Contributions to the pension plan from the District and the Charter School were \$9,437,099 and \$65,260, respectively, for the year ended June 30, 2015.

**Net Pension Liability:** NMERB's net pension liability for fiscal year 2014 is \$5,705.1 billion. This represents a \$571.1 million, or 9.1%, decrease from the fiscal year 2013 \$6,276.8 billion balance. The 2014 net pension liability stated as a percentage of covered payroll is 209.92%. The decrease in net pension liability is primarily due to investment gains.

At June 30, 2015, the District and Charter School reported a liability of \$137,629,661 and \$790,806, respectively, for its proportionate share of the net pension liability. The District's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2014. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2014, the District's proportion was 2.41213 percent which was a decrease of 0.15774 from its proportion measured as of June 30, 2013.

ERB Actuarials At A Glance*				
Fiscal Year	06/30/2012	06/30/2013	06/30/2014	06/30/2014 GASB 68
UAAL	\$6.2B	\$6.5B	\$6.3B	\$5.7B
Funded Ratio	60.7%	60.1%	63.1%	66.9%
Funding Period	Infinite	95.1 years	42.1 years	Not applicable

*\*New Mexico School Boards Association, February 2015*

## Post-Employment Benefits

The District contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority ("RHCA"). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The RHCA Board is responsible for establishing and amending benefit provisions of the healthcare plan is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment health care plan. That report and further information can be obtained by writing to RHCA, 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

## Funding Policy

The Retiree Health Care Act (Section 10-7C-13, NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for health care benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premiums to cover their claims and the administrative expenses of plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board. The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required The Retiree Health Care Act.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The District's contributions to the RHCA for the years ended June 30, 2015, 2014 and 2013 were \$1,362,228, \$1,333,657 and \$1,386,182 respectively, which equal the required contributions for each year.

## TAX EXEMPTION

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under existing law and assuming continuous compliance with certain covenants made by the District, the interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. Bond Counsel is further of the opinion that, under existing law, interest on the Bonds is excluded from net income for purposes of the tax imposed on individuals, estates and trusts under the New Mexico Income Tax Act or for purposes of the tax imposed on corporations under the New Mexico Corporate Income and Franchise Tax Act. Bond Counsel will express no opinion regarding other federal or New Mexico income tax consequences resulting from the receipt or accrual of interest on the Bonds. A form of Bond Counsel Opinion is attached to this document as Appendix D.

The opinion on federal tax matters will be based on and will assume continuous compliance with certain covenants of the District to be contained in the transcript of proceedings and that are intended to evidence and assure that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel has not and will not independently verify the accuracy of any of the certifications and representations made by the District.

The Code prescribes a number of qualifications that must be met and conditions that must be satisfied in order for the interest on state and local government obligations such as the Bonds to be and remain excluded from gross income for federal income tax purposes. Some of these provisions, including provisions for the rebate by the issuer of certain investment earnings to the federal government, require future or continued compliance after issuance of the obligations in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with these requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes and thus to be subject to regular federal income taxes. The District covenants in the Bond Resolution to take all actions that may be required of it in order for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Code provisions applicable to corporations (as defined for federal income tax purposes) that impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income, may subject a portion of the interest of the Bonds earned by corporations to the corporate tax imposed on certain corporations, a branch profits tax imposed on certain foreign corporations doing business in the United States, and a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes can result in certain adverse federal income tax consequences on items of income or deductions for certain taxpayers, including among them financial institutions, insurance companies, recipients of Social Security and Railroad Retirement benefits, and those that are deemed to incur or continue indebtedness to acquire or carry tax exempt obligations. The applicability and extent of those or other tax consequences will depend upon the particular tax status or other items of income and expense of the owners of the Bonds. Bond Counsel expresses no opinion regarding such consequences.

### Internal Revenue Service Audit Program

The Internal Revenue Service (the "Service") has an ongoing program auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the District as the taxpayer and the Bond owners may have no right to participate in such procedure.

None of the District, the Financial Advisor, or Bond Counsel is obligated to defend the tax-exempt status of the Bonds. However, the District has covenanted in the Bond Resolution not to take any action that would cause the interest on the Bonds to lose its exclusion from gross income, except to the extent described above, for the owners



thereof for federal income tax purposes. None of the District, the Financial Advisor, or Bond Counsel is responsible to pay or reimburse the costs of any Bond, owner with respect to any audit or litigation relating to the Bonds.

## **FINANCIAL INSTITUTION INTEREST DEDUCTION**

The Tax Code generally provides that a financial institution may not deduct that portion of its interest expense which is allocable to tax-exempt interest. The interest expense which is allocable to tax-exempt interest is an amount which bears the same ratio to the institution's interest expense as the institution's average adjusted basis of tax-exempt obligations acquired after August 7, 1986 bears to the average adjusted basis of all assets of the institution. Tax exempt obligations may be treated as if issued prior to August 7, 1986 (and therefore are not subject to this rule) if they are "qualified tax-exempt obligations" as defined in the Code and are designated for this purpose by the issuer. The District has designated the Bonds as "qualified tax-exempt obligations" for this purpose; however, under provisions of the Code dealing with financial institution preference items, certain financial institutions, including banks, are denied 20 percent of their otherwise allowable deduction for interest expense with respect to obligations incurred or continued to purchase or carry the Bonds. In general, interest expense with respect to obligations incurred or continued to purchase or carry the Bonds will be in an amount which bears the same ratio as the institution's average adjusted basis in the Bonds bears to the average adjusted basis of all assets of the institution.

### **Original Issue Discount**

The Bonds may be offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. For federal income tax purposes, original issue discount on a Bond accrues periodically over the term of the Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holders' tax basis in the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders of Bonds offered at original issue discount should consult their tax advisor for an explanation of the accrual rules.

### **Original Issue Premium**

The Bonds may be offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Bond through reductions in the holders' tax basis in the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Bond rather than creating a deductible expense or loss. Holders of Bonds offered at an original issue premium should consult their tax advisor for an explanation of the amortization rules.

## **LITIGATION**

There is no litigation pending about the validity of the Bonds or the use of Bond proceeds, the corporate existence of the District or the titles of their officers or contesting or affecting the District's ability to receive taxes that could be used for Bond payments.

At the time of the original delivery of the Bonds, the District will deliver a no-litigation certificate to the effect that no litigation or administrative action or proceeding is pending or, to the knowledge of the appropriate officials, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, the effectiveness of the Bond Resolution, the levying or collection of taxes to pay the principal of and interest on the Bonds except as described below or contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds.

## **RATINGS**

Moody's Investors Service has rated the Bonds "A1 Underlying/Aa1 Enhanced". An explanation of the significance of the rating given by Moody's Investors Service may be obtained from Moody's Investors Service, Inc. at 99 Church Street, New York, New York 10007. There is no assurance that the rating will be obtained or will continue for any given period of time after received or that the rating will be revised downward or withdrawn entirely by the rating

agency, if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have effect on the market price of the Bonds.

## LEGAL MATTERS

The opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel, approving the legality of the Bonds and relating to the tax-exempt status of the Bonds will be furnished to the successful bidder at no cost to the successful bidder. The written approval of the New Mexico Attorney General of the Bonds as to form and legality will be supplied. A draft of the opinion of Bond Counsel is attached hereto as Appendix D.

## CONTINUING DISCLOSURE UNDERTAKING

For the benefit of bondholders and to enable a broker, dealer or municipal securities dealer to comply with requirements of Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission, the District has undertaken to provide to the Municipal Securities Rulemaking Board's (the "MSRB") Electronic Municipal Market Access ("EMMA") system, its audited financial statements and certain financial and operating information. The District will provide financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "DEBT AND OTHER FINANCIAL OBLIGATIONS," "TAX BASE," "THE DISTRICT-Student Enrollment," and "FINANCES OF THE EDUCATIONAL PROGRAM - State Equalization Program, Statement of Net Assets, Statement of Activities, Balance Sheet – General Fund, Statement of Revenues & Expenditures & Changes in Fund Balances – General Fund." The District will update and provide this information no later than March 31 of each year, commencing March 31, 2017. A draft of the Continuing Disclosure Undertaking is attached hereto as Appendix E.

Any or all of such information may be incorporated by reference from other documents, as permitted by the Rule. The annual information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements and audited financial statements when and if audited financial statements become available. Any such financial statements will be prepared in accordance with generally accepted accounting principles and state law requirements, as in effect from time to time. (See Note 1 of the District's audited financial statements included as Appendix B for a description of the accounting principles currently followed in the preparation of the District's audited annual financial statements.)

If the District changes its fiscal year, it may change the date by which it must provide its annual financial information to a date no later than six months after the end of its new fiscal year. In addition, the District shall provide to EMMA timely notice of any failure to provide required annual financial information on or before the filing date.

### Event Notices

The District shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: 1) principal and interest payment delinquency; 2) non-payment related default, if material; 3) unscheduled draw on debt service reserves reflecting financial difficulties; 4) unscheduled draw on credit enhancements reflecting financial difficulties; 5) substitution of credit or liquidity provider, or their failure to perform; 6) adverse tax opinion, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notice or determination with respect to the tax status of the security, or other material events affecting the tax status of the security; 7) modification to rights of security holders, if material; 8) bond calls; 9) defeasances; 10) release, substitution or sale of property securing repayment of the security, if material; 11) rating change; 12) failure to provide event filing information as required; 13) tender offer/secondary market purchases; 14) merger, consolidation or acquisition and sale of all or substantially all assets; 15) bankruptcy, insolvency, receivership or similar event with respect to the District or an obligated person; and 16) appointment of a successor or additional trustee, or the change of name of a trustee, if material.

In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

## Limitations and Amendments

The District may amend its undertaking from time to time without consent of the Bondholders, if the District delivers to EMMA an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect hereto, will not adversely affect compliance of the undertaking and the District with the Rule (except that no opinion of counsel shall be required with respect to a change in the date by which the annual financial and operating information must be reported resulting from a change in the District's fiscal year). The undertaking will terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. In addition, the undertaking, or any provision thereof, will be null and void in the event the District delivers to EMMA an opinion of nationally recognized bond counsel to the effect that those portions of the Rule that require the undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds.

Any failure of the District to provide the annual financial information or any material event notice does not constitute an Event of Default with respect to the Bonds, and an action seeking to compel performance of the undertaking shall be the sole remedy in the event the District fails to comply with the undertaking.

The District has made continuing disclosure agreements in accordance with SEC Rule 15c2-12, however, the Official Statement dated September 19, 2011 and June 17, 2013 did not disclose that the 2008 Audited Financial Statement was filed 13 days late. The District is now in compliance with all existing continuing disclosure agreements in all material respects and has implemented procedures to assure continuing disclosure compliance.

## ADDITIONAL MATTERS

All summaries of the statutes, resolutions, opinions, contracts, agreements, financial and statistical data and other related reports described in this Official Statement are subject to the actual provisions of such documents. The summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are either publicly available or available for inspection during normal business hours at the offices of the District located at the School Administration Office, or at the offices of RBC Capital Markets, LLC, 6301 Uptown Boulevard, NE, Suite 110, Albuquerque, New Mexico 87110.

## A LAST WORD

Anything in this Official Statement involving matters of opinion or estimates – whether labeled as such or not – are just that. They are not representations of fact. They might not prove true. Neither this Official Statement nor any other written or oral information is to be construed as a contract with the registered owners of the Bonds.

The District has duly authorized the execution and delivery of this Official Statement.

/s/

\_\_\_\_\_  
Titus J. Nez, President, Board of Education

/s/

\_\_\_\_\_  
Priscilla Manuelito, Secretary, Board of Education

## APPENDIX A

### ECONOMIC & DEMOGRAPHIC INFORMATION

## **THE ECONOMY**

### **General**

Until 1881, Gallup was a stagecoach stop consisting of a combination saloon-general store called the Blue Goose when the Atchison Topeka & Santa Fe Railroad pushed its way through the red rock mesa and established a railroad camp to make use of coal deposits in the area. Through the turn of the century and the early nineteenth century, the presence of coal mines and the railroad attracted settlers from other countries giving the community the cosmopolitan atmosphere that it enjoys today.

Often called the "Indian Capital of the World," Gallup is located approximately 15 miles from the Arizona border and is situated south and east of the 17.5 million acre Navajo Nation and north of the Zuni Pueblo. Today, Gallup is the largest city within a 120-mile radius and has developed into the trading, financial, medical, transportation and governmental center for the area. Gallup is the only incorporated community in the District and serves as the McKinley County seat. The economy is centered on government activity, mining, retail trade and tourism.

### **Retail Trade**

The trade area includes approximately 25,000 square miles in four states, New Mexico, Arizona, Utah, and Colorado, and serves an estimated 125,000 people. Gallup serves as the major trading center for the Acoma, Hopi, Laguna, Navajo and Zuni tribes. More than three quarters of the people living in the trade area are members of the Navajo, Zuni and Hopi Indian tribes. In fiscal year 2015, the City of Gallup had retail gross receipts totaling over \$671 million.

### **Tourism**

Tourism attracts thousands of visitors annually due, in part, to the community's location at the intersection of several major highways and its proximity to several American Indian reservations, national parks and monuments, state parks, and recreational areas. Native American culture provides a significant economic influence in encouraging tourism and visitors. Gallup is the site of the Inter-Tribal Indian Ceremonial which has been held annually since 1922 and is a major tourist attraction that draws approximately 30,000 people annually. Another annual event that draws visitors to the area from all over the nation is the Red Rock Balloon Rally, now in its 35<sup>th</sup> year, and attracting more than 200 competitors each year.

### **American Indian Arts and Crafts**

The sale of Native American arts and crafts, which are produced through a cottage industry system, constitutes a significant part of the economic base of the county. With more than 60 jewelry outlets in the community, Gallup and McKinley County are considered the nation's center for the production and marketing of Indian arts and crafts including jewelry, rugs, and pottery.

### **Federal Government**

Government service organizations provide a significant number of jobs. The Federal Government is the largest employer in McKinley County. Federal Government installations include the Bureau of Indian Affairs, Public Health Service Hospitals at both Gallup and Crownpoint, a Forest Service Training Center and Ranger Station, the Bureau of Mines' Fish and Wildlife Services, and many other offices and agencies.

## Manufacturing

Small manufacturing includes Indian jewelry, printing, sheet metal products, food products, pinon nut gathering, cattle and sheep by-products. Heavy manufacturing includes gasoline refining, a natural gas compressor station and mining. The coal industry has influenced the economy of the county since the late 1800s, and today coal mining is still an important part of the economy.

## Coal Mining

There are two active coal mines located in McKinley County; Lee Ranch Coal Company ("Lee Ranch") and El Segundo Mine. Lee Ranch and El Segundo are wholly owned subsidiaries of the Peabody Group based in St. Louis, Missouri.

Lee Ranch Mine, located about 35 miles northwest of Grants, N.M., was opened in 1984 by Santa Fe Pacific Minerals to supply coal to Western Fuels Association and Tucson Electric Power under long-term contracts. Other customers include Arizona Public Service and Arizona Electric Power Cooperative. Unit trains shift the coal to power plants in New Mexico and Arizona. Lee Ranch mine's annual production is 5.5 mil tons, and it owns or controls approximately 144 million tons of recoverable low sulfur coal reserves.

El Segundo Mine, located in Northwest New Mexico adjacent to Lee Ranch Mine, opened in 2008. El Segundo is one of the most productive mines in the Southwest because of its low overburden ratio. Currently, El Segundo has long-term coal agreements with Arizona Public Service Company, Tucson Electric Power, Arizona Electric Power Cooperative and Western Fuels Association are supplied coal under shorter-term contracts.

El Segundo shipped 8.2 million tons of coal in 2014, and owns or controls approximately 167 million tons of coal reserves. A workforce of 325 uses dozers, shovels, and trucks to uncover between two and five coal seams ranging from 1.5- to 16-feet thick. Coal loading takes place daily and is done with the aid of end loaders. The coal is transferred to its four customers via the Burlington Northern Santa Fe Railway.

Peabody officially announced in November of 2015 that they've entered into a "definitive" agreement to sell their New Mexico and Colorado coal assets, including El Segundo and Lee Ranch Mines in northern Cibola County, and Twentymile in CO to Bowie Resource Partners, LLC for \$358 million in cash, subject to customary working capital adjustments. Peabody's New Mexico and Colorado's mines are projected to produce 11 million tons in 2016. The sale has been approved by Peabody's board of directors and is expected to be complete by the first quarter of 2016.<sup>1</sup>

In addition to coal, the natural resource base of McKinley County includes uranium, natural gas liquids, petroleum, natural gas, sand, gravel and clays.

## Electric Generating Station

**Plains Escalante Generating Station (PEGS)**, is located near Prewitt, N.M., 90 miles west of Albuquerque, N.M. This coal-fired power plant, with a work force of about 120 employees, is wholly owned and operated by Tri-State. In addition to providing electric power, PEGS supplies excess steam to the adjacent McKinley Paper Co. for the manufacture of linerboard<sup>2</sup>.

### Plant Statistics:

Total project cost: \$450 million; Total net capacity: 245 megawatts

- Primary water supply — Underground wells
- Coal supplier — PEGS receives its coal supply primarily from El Segundo Mine, five miles north of the plant by rail. Sixteen trains per month with 52 100-ton railcars deliver the coal.

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<sup>1</sup> Steamboat Today. Twentymile Mine being sold to Bowie Resource Partners. <http://www.steamboattoday.com/news/2015/nov/20/twentymile-mine-being-sold-bowie-resource-partners/>

<sup>2</sup> Tri-State Generation and Transmission Association. Baseload Resources. <http://www.tristategt.org/aboutus/baseload-resources.cfm>

- Property — The 2,560-acre property includes the power plant, a railroad turnaround, an area for reserve coal storage and handling, water treatment systems and cooling towers, and approximately 2,360 acres for future construction and disposal of fly ash and other plant byproducts.
- Construction completed — 1984.

## Health

The large and modern U.S. Public Health Service Hospital is devoted exclusively to the medical needs of the Native American population. Rehoboth McKinley Christian Hospital has complete and modern facilities, as well as a nursing home. Lovelace Foundation also operates a clinic in the county.

## Education

The Gallup-McKinley County Public Schools serves over 11,000 students in its 19 elementary schools, seven middle schools, eight high schools, one alternative high schools, and one local charter school located throughout the district. The county also includes ten parochial schools, twelve BIA schools, and two state charters.

With 2015 enrollment of approximately 2,473 students (an increase of 2.66% from 2014)<sup>3</sup>, the University of New Mexico ("UNM") - Gallup Branch has the largest Native American student body of a public university in the world. UNM-Gallup is the largest of the four UNM branch campuses and serves approximately 75,000 residents in the greater Gallup and McKinley County region. The college also includes the 25,000 square foot Zuni Area Learning Center and a 2,500 square foot Adult Education Learning Center on Gallup's north side. The campus offers d Certificates in 18 disciplines and Associate's Degrees in 19 programs, Bachelor's degrees in six programs, Master's degrees in five programs and a PhD in one program adult basic education, GED classes and testing, English as a second language and citizenship classes; area vocational education; and community education and services<sup>4</sup>.

Western New Mexico University ("WNMU") established a WNMU Gallup Graduate Studies Center ("GGSC") in 1984, initially in response to requests from the [Gallup McKinley County School District](#) for a university to offer graduate and professional development courses for area teachers, administrators, and special educators. The GGSC now serves a range of school districts in a 100-mile radius, including many schools on the [Navajo Nation, Pueblo of Zuni Public Schools](#), and Bureau of Indian Education schools. The center also addresses the education needs of the mental health community. In addition to the masters in counseling, the center offers the Bachelor of Social Work upper division program and the complete graduate level School Psychology Licensure Program.

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<sup>3</sup> UNM Office of Institutional Analytics. Enrollment Reports. Fall 2015 Official Enrollment Report. <http://oia.unm.edu/documents/enrollment-reports/fall-15-oer.pdf>

<sup>4</sup> UNM-Gallup. Snapshot of UNM-Gallup. <http://www.gallup.unm.edu/main/about/snapshot.php>

## Population

The following chart sets forth historical and current population data for the City of Gallup, McKinley County and the State.

Census Year	City of Gallup	McKinley County	State of New Mexico
1960	14,089	37,209	951,023
1970	14,596	43,209	1,017,055
1980	18,167	56,536	1,303,143
1990	19,331	60,686	1,515,069
2000	20,209	75,072	1,826,280
2010	21,678	71,492	2,065,826
2014*	22,469	74,098	2,085,572
2015 <sup>(1)</sup>	23,052	73,814	2,091,587
2020 <sup>(1)</sup>	23,886	75,741	2,540,145
Projected Growth 2015-2020 <sup>(2)</sup>	3.62%	2.61%	1.52%

\*Estimates. Source: U.S. Census Bureau: State and County QuickFacts.

Last Revised: Wednesday, 2-Dec-2015

(1) Estimates. Source: The Nielsen Company, November 2015

(2) Projected. Source: UNM, Bureau of Business & Economic Research and Census Bureau and The Nielsen Company

## Age Distribution

The following table sets forth a comparative age distribution profile for McKinley County, the State of New Mexico and the United States.

<u>Age Group</u>	<u>McKinley County</u>	<u>New Mexico</u>	<u>United States</u>
0 - 17	30.5%	24.5%	23.2%
18 - 24	11.4%	9.7%	9.9%
25 - 34	13.4%	13.3%	13.3%
35 - 44	11.4%	11.8%	12.7%
45 - 54	11.8%	12.6%	13.6%
55 and Older	21.5%	28.1%	27.3%

Source: The Nielsen Company, December 2015



## Effective Buying Income

The following table reflects the percentage of households by Effective Buying Income ("EBI") and a five-year comparison of the estimated median household income as reported by The Nielsen Company. EBI is personal income less personal tax and non-tax payments. Personal income includes wages and salaries, other labor income, proprietors' income, rental income, dividends, personal interest income and transfer payments. Deductions are made for federal, state and local taxes, non-tax payments such as fines and penalties, and personal contributions for social security insurance.

Effective Buying Income Group	McKinley County	New Mexico	United States
Under \$25,000	42.1%	28.4%	23.5%
\$25,000 - \$34,999	13.9%	11.6%	10.2%
\$35,000 - \$49,999	11.3%	14.1%	13.6%
\$50,000 - \$74,999	15.7%	17.1%	17.8%
\$75,000 & Over	16.9%	28.8%	34.9%
2011 Est. Median Household Income	\$31,472	\$42,030	\$49,726
2012 Est. Median Household Income	\$31,671	\$41,958	\$49,581
2013 Est. Median Household Income	\$30,220	\$43,273	\$49,297
2014 Est. Median Household Income	\$30,745	\$44,292	\$51,579
2015 Est. Median Household Income	\$30,651	\$45,633	\$53,706

Source: The Nielsen Company, December 2015

## Employment

The following table, derived from information supplied by New Mexico Workforce Solutions, presents information on employment within McKinley County, the State of New Mexico, and the United States, for the periods indicated. The annual unemployment figures indicate average rates for the entire year and do not reflect monthly or seasonal trends.

Year <sup>(1)</sup>	McKinley County		State of New Mexico		United States
	Labor Force	% Unemployed	Labor Force	% Unemployed	% Unemployed
2015 <sup>(2)</sup>	23,618	9.30%	918,080	6.80%	5.00%
2014	23,798	9.80%	918,206	6.50%	6.20%
2013	24,429	9.90%	922,960	6.90%	7.40%
2012	25,131	9.50%	928,050	7.10%	8.10%
2011	25,069	9.90%	929,862	7.60%	8.90%
2010	25,597	9.90%	936,088	8.10%	9.60%
2009	27,078	8.30%	940,352	7.50%	9.30%
2008	26,668	5.50%	944,548	4.50%	5.80%
2007	26,725	4.60%	934,027	3.80%	4.60%
2006	26,616	5.60%	928,094	4.20%	4.60%

(1) Numbers are annual averages.

(2) Data for the month of November 2015. Numbers are Preliminary.

Source: U.S. Bureau of Labor Statistics, December 2015.

## Gross Receipts

The following table shows the total reported retail and grand total gross receipts generated in the City of Gallup and the State of New Mexico. For the purposes of this table, gross receipts means the total amount of money received from selling or renting property and from performing services in the State. Gross receipts includes, among other things, food sales and services such as legal and medical services.

FY 30-Jun	City of Gallup		State of New Mexico	
	Retail	Total	Retail	Total
2015	\$ 671,031,426	\$ 1,535,826,420	\$ 27,481,308,742	\$ 119,726,977,705
2014	565,274,145	1,246,462,015	24,395,913,091	107,584,699,939
2013	600,300,409	1,406,711,990	24,239,671,094	108,060,633,566
2012	583,119,870	1,405,706,742	23,914,774,353	104,221,140,556
2011	555,059,471	1,311,914,219	23,789,930,180	102,715,750,442
2010	518,330,030	1,280,459,181	24,608,799,717	94,722,576,401
2009	511,393,155	1,288,513,584	23,813,635,284	104,562,006,074
2008	542,719,023	1,386,706,084	25,711,762,198	110,710,199,751
2007	483,728,110	1,193,598,937	26,012,239,572	103,740,330,414
2006	503,772,426	1,102,092,194	24,014,746,059	94,347,408,225

Source: New Mexico Taxation & Revenue Department

## Major Employers

The following table shows major employers with over 200 employees in McKinley County.

<u>Employer</u>	<u>Number of Employees</u>	<u>Type of Business</u>
Gallup-McKinley County Schools	2,000	Education
USPHS Gallup Indian Medical Center	1,000	Medical
Rehoboth McKinley Christian Hospital	649	Medical
Wal-Mart	637	Retail
Zuni Public Schools	417	Education
Western Refining Southwest, Inc.	389	Energy
City of Gallup	374	Government
Navajo Nation Gaming Enterprise	275	Gaming
University of New Mexico - Gallup	242	Education
Lowe's Pay and Save, Inc.	240	Retail
Bureau of Indian Affairs	210	Government
McKinley County	200	Government

Source: Greater Gallup Economic Development Corporation, December 2015

<http://gallupedc.com/gallup/doing-business-here/top-employers>

## Covered Wage and Salary Employment

The New Mexico Workforce Solutions publishes quarterly reports of covered employment and wages according to the [North American Industry Classification System \(NAICS\)](#).

McKinley County					
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>(1)</sup></u>
Grand Total	19,212	19,548	19,684	20,164	20,931
Total Private	13,364	13,572	13,184	12,926	13,445
Accommodation and Food Services	2,579	2,670	2,665	2,542	2,699
Administrative and Waste Services	255	248	276	269	287
Agriculture, Forestry, Fishing & Hunting	Confidential	Confidential	Confidential	Confidential	Confidential
Arts, Entertainment, and Recreation	37	35	33	32	Confidential
Construction	602	622	585	570	668
Educational Services	160	175	143	154	132
Finance and Insurance	405	370	391	409	379
Health Care and Social Assistance	3,388	3,396	3,289	3,204	3,436
Information	214	206	194	186	176
Management of Companies and Enterprises	38	38	38	37	37
Manufacturing	531	531	522	524	546
Mining	76	121	72	37	28
Professional and Technical Services	461	464	415	415	417
Public Administration	227	236	252	257	212
Real Estate and Rental and Leasing	179	167	178	204	220
Retail Trade	3,130	3,208	3,223	3,213	3,284
Transportation and Warehousing	385	413	296	250	268
Utilities	152	155	151	148	149
Wholesale Trade	524	496	460	468	478
Total Government	7,580	7,449	7,349	7,239	7,485
Federal	2,590	2,597	2,508	2,431	2,476
State	537	532	545	553	547
Local	4,453	4,320	4,296	4,255	4,462

(1) Data as of Second Quarter of 2015

\* Withheld to avoid disclosing confidential data. Data that are not disclosed for individual industries are always included in the totals. Therefore, the individual industries may not sum to the totals.

Note: Figures shown here are annual averages of quarterly data.

Source: New Mexico Department of Workforce Solutions, Quarterly Census of Employment and Wages program.

APPENDIX B

AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2015



**State of New Mexico**  
**Gallup-McKinley County Public Schools**  
**Financial Statements**  
**With Accompanying Auditors' Reports**  
**For the Year Ended June 30, 2015**

# **GALLUP-MCKINLEY COUNTY SCHOOLS**

Growing Students to be Productive Citizens in a Multicultural Society



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## **INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
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**STATE OF NEW MEXICO**  
**Gallup-McKinley County Public Schools**  
**Official Roster**  
**June 30, 2015**

<b>Primary Government</b>		
<b><u>Name</u></b>	<b><u>Board of Education</u></b>	<b><u>Title</u></b>
Joe Menini		President
Kevin Mitchell		Vice President
Titus J. Nez		Secretary
Dr. Bruce Tempest		Member
Priscilla Manuelito		Member
<b><u>School Officials</u></b>		
Frank Chiapetti		Superintendent
Carmen Moffett		Interim Superintendent (August 2015 to November 2015)
Mike Hyatt		Assistant Superintendent of Business Services
Pauletta White		Assistant Superintendent of Support Services
Jvanna Hanks		Chief Finance Officer
Cenin Gabay		Controller
<b>Component Unit</b>		
<b><u>Name</u></b>	<b><u>Board Members</u></b>	<b><u>Title</u></b>
Anthony Major		Board President
LaVerne Chischilly		Secretary/Treasurer and Audit Committee
Lisa Bracken		Member
Dale Buser		Member
Tara Lucio		Member
<b><u>School Officials</u></b>		
Connie Torres		Chief Executive Officer
Kim Brown		Business Manager

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## **FINANCIAL SECTION**



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

## **INDEPENDENT AUDITORS' REPORT**

Timothy Keller  
New Mexico State Auditor  
The Office of Management and Budget  
To the Board of Education  
Gallup- McKinley County Public Schools  
Gallup, New Mexico

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of Gallup-McKinley County Public Schools (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the District's nonmajor governmental funds, the combining financial statements for the general fund and the component unit funds, the budgetary comparisons for the major capital projects funds, major debt service fund, the component unit funds, and all nonmajor funds presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2015, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District'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 District's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Gallup-McKinley County Public Schools, as of June 30, 2015, and the respective changes in financial position and, the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance 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 respective financial position of each nonmajor governmental fund, and the combining financial statements for the general fund and the component unit funds of the District as of June 30, 2015, and the respective changes in financial position, thereof, and the respective budgetary comparisons for the major capital projects fund, major debt service fund, component unit funds, and all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America requires the Schedules I and II and the notes to the Required Supplementary Information on pages 76 through 80 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge 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 District's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations and Supporting Schedules III through VI required by 2.2.2 NMAC* are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards and Supporting Schedules III through VI required by 2.2.2 NMAC* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 *Schedule of Expenditures of Federal Awards and Supporting Schedules III through VI required by 2.2.2 NMAC* are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 on our consideration of the District'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 District's internal control over financial reporting and compliance.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, NM  
November 12, 2015

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**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**Gallup-McKinley County Public Schools**  
**Statement of Net Position**  
**June 30, 2015**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 55,704,191	\$ 342,406
Property taxes receivable	533,961	-
Due from other governments	17,212,421	-
Other receivables	8,508	-
Inventory	994,673	-
	<u>74,453,754</u>	<u>342,406</u>
Total current assets		
Noncurrent assets		
Restricted cash and cash equivalents	11,813,371	-
Restricted investment	1,958,571	-
Bond discounts (net of accumulated amortization of \$20,765)	153,538	-
Capital assets	509,332,380	214,368
Less: accumulated depreciation	(142,802,183)	(47,687)
	<u>380,455,677</u>	<u>166,681</u>
Total noncurrent assets		
Total assets	<u>454,909,431</u>	<u>509,087</u>
<b>Deferred outflows of resources</b>		
Employer contributions subsequent to the measurement date	9,437,099	65,260
Change in proportion	-	22,356
	<u>9,437,099</u>	<u>87,616</u>
Total deferred outflows of resources		
Total assets and deferred outflows of resources	<u><u>\$ 464,346,530</u></u>	<u><u>\$ 596,703</u></u>

The accompanying notes are an integral part of these financial statements

	Primary Government Governmental Activities	Component Unit
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 4,520,247	\$ 3,924
Deposits payable	56,775	-
Accrued payroll	6,683,757	10,923
Due to NM Public Education Department	291,437	288
Accrued interest	866,255	-
Current portion of accrued compensated absences	359,773	3,018
Current portion of bonds payable	7,995,000	-
Total current liabilities	20,773,244	18,153
Noncurrent liabilities		
Bond underwriter premiums (net of accumulated amortization of \$381,936)	1,551,615	-
Accrued compensated absences	159,245	1,517
Bonds payable	59,415,000	-
Net pension liability	137,629,661	790,806
Total noncurrent liabilities	198,755,521	792,323
Total liabilities	219,528,765	810,476
<b>Deferred inflows of resources</b>		
Change in proportion	7,349,283	-
Actuarial experience	2,050,205	11,777
Investment experience	12,511,195	71,868
Total deferred inflow of resources	21,910,683	83,645
<b>Net Position</b>		
Net investment in capital assets	314,956,542	166,681
Restricted for:		
Debt service	11,314,168	-
Capital projects	7,165,876	2,539
Other purposes	18,081,793	-
Unrestricted	(128,611,297)	(466,638)
Total net position	222,907,082	(297,418)
Total liabilities, deferred inflows of resources, and net position	\$ 464,346,530	\$ 596,703

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Statement of Activities  
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental Activities:</b>				
Instruction	\$ 76,729,352	\$ 1,115,181	\$ 37,784,876	\$ 10,345,383
Support services - students	11,093,796	161,237	5,463,068	1,495,771
Support services - instruction	3,641,236	52,922	1,793,103	490,946
Support services - general administration	1,276,563	18,554	628,635	172,118
Support services - school administration	5,975,255	86,844	2,942,476	805,641
Central services	3,746,416	54,450	1,844,898	505,128
Operation and maintenance of plant	17,188,952	249,823	8,464,589	2,317,578
Student transportation	5,877,096	-	5,657,097	-
Other support services	127,771	1,857	62,920	17,227
Food services operations	6,383,003	160,855	6,782,683	-
Interest on long-term debt	1,854,066	-	-	-
Total governmental activities	<u>\$ 133,893,506</u>	<u>\$ 1,901,722</u>	<u>\$ 71,424,346</u>	<u>\$ 16,149,793</u>
<b>Component Unit Activities:</b>				
Charter school	<u>\$ 945,071</u>	<u>\$ -</u>	<u>\$ 5,356</u>	<u>\$ 19,309</u>

**General Revenues:**

Taxes  
Property taxes, levied for operating programs  
Property taxes, levied for debt services  
Property taxes, levied for capital projects  
Oil and gas taxes  
State equalization guarantee  
Interest and investment earnings  
Remittance of fund balance  
Miscellaneous  
Loss on disposition of assets

Subtotal, general revenues

Changes in net position

Net position - as originally stated  
Restatement (Note 17)  
Net position - beginning as restated

Net position - ending

The accompanying notes are an integral part of these financial statements



<b>Net (Expense) Revenue and Changes in Net Position</b>	
<b>Primary Government</b>	<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Charter School</b>
\$ (27,483,913)	\$ -
(3,973,719)	-
(1,304,265)	-
(457,256)	-
(2,140,294)	-
(1,341,940)	-
(6,156,961)	-
(219,999)	-
(45,767)	-
560,535	-
(1,854,066)	-
(44,417,645)	-
	(920,406)
353,969	-
6,918,518	-
1,660,869	-
22,685	-
63,296,435	841,247
11,966	-
(162,847)	-
60,250	-
(78,940)	-
72,082,905	841,247
27,665,260	(79,159)
347,872,142	571,340
(152,630,320)	(789,599)
195,241,822	(218,259)
\$ 222,907,082	\$ (297,418)

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Balance Sheet  
Governmental Funds  
June 30, 2015

	General Fund 11000, 12000, 13000, 14000	Title I - IASA Special Revenue Fund 24101	Impact Aid Indian Education Special Revenue Fund 25147
<b>ASSETS</b>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 19,640,363	\$ 58,211	\$ 9,175,767
Investments	-	-	-
Property taxes receivable	17,738	-	-
Due from other governments	2,520,156	3,029,315	537,987
Other receivables	6,403	-	-
Inventory	571,390	-	-
Due from other funds	7,183,144	-	-
	<hr/>	<hr/>	<hr/>
<i>Total assets</i>	<u>\$ 29,939,194</u>	<u>\$ 3,087,526</u>	<u>\$ 9,713,754</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>			
<i>Current liabilities</i>			
Accounts payable	\$ 715,004	\$ 8,895	\$ 3,276
Deposits payable	56,775	-	-
Accrued payroll	5,265,542	376,866	311,999
Due to NM Public Education Department	-	-	-
Due to other funds	74,362	2,701,765	-
	<hr/>	<hr/>	<hr/>
<i>Total liabilities</i>	<u>6,111,683</u>	<u>3,087,526</u>	<u>315,275</u>
<i>Deferred inflows of resources</i>			
Unavailable revenue- property taxes	10,443	-	-
Unavailable revenue- grant revenue	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total deferred inflows of resources</i>	<u>10,443</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>			
Nonspendable			
Inventory	571,390	-	-
Spendable			
Restricted for:			
Educational purposes	900,292	-	9,398,479
Food service	-	-	-
Capital acquisitions and improvements	-	-	-
Debt service	-	-	-
Extracurricular activities	-	-	-
Committed for:			
Subsequent year expenditures	5,852,318	-	-
Unassigned	16,493,068	-	-
	<hr/>	<hr/>	<hr/>
<i>Total fund balances</i>	<u>23,817,068</u>	<u>-</u>	<u>9,398,479</u>
<i>Total liabilities, deferred inflows of resources, and fund balance</i>	<u>\$ 29,939,194</u>	<u>\$ 3,087,526</u>	<u>\$ 9,713,754</u>

The accompanying notes are an integral part of these financial statements

Bond Building Capital Projects 31100	Public School Capital Outlay 31200	Debt Service 41000	Other Governmental Funds	Total
\$ 15,226,055	\$ 1	\$ 11,813,371	\$ 11,603,794	\$ 67,517,562
-	-	1,958,571	-	1,958,571
-	-	416,301	99,922	533,961
15,078	2,562,475	-	8,547,410	17,212,421
-	-	547	1,558	8,508
-	-	-	423,283	994,673
-	-	-	74,362	7,257,506
<u>\$ 15,241,133</u>	<u>\$ 2,562,476</u>	<u>\$ 14,188,790</u>	<u>\$ 20,750,329</u>	<u>\$ 95,483,202</u>
\$ 1,013,958	\$ 2,562,475	\$ -	\$ 216,639	\$ 4,520,247
-	-	-	-	56,775
-	-	-	729,350	6,683,757
-	-	-	291,437	291,437
-	-	-	4,481,379	7,257,506
<u>1,013,958</u>	<u>2,562,475</u>	<u>-</u>	<u>5,718,805</u>	<u>18,809,722</u>
-	-	249,734	59,949	320,126
-	-	-	2,191,609	2,191,609
-	-	249,734	2,251,558	2,511,735
-	-	-	423,283	994,673
-	-	-	2,747,098	13,045,869
-	-	-	2,410,474	2,410,474
14,227,175	1	-	6,064,730	20,291,906
-	-	13,939,056	-	13,939,056
-	-	-	1,664,851	1,664,851
-	-	-	-	5,852,318
-	-	-	(530,470)	15,962,598
<u>14,227,175</u>	<u>1</u>	<u>13,939,056</u>	<u>12,779,966</u>	<u>74,161,745</u>
<u>\$ 15,241,133</u>	<u>\$ 2,562,476</u>	<u>\$ 14,188,790</u>	<u>\$ 20,750,329</u>	<u>\$ 95,483,202</u>

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**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Governmental Funds

Exhibit B-1  
Page 2 of 2

Reconciliation of the Balance Sheet to the Statement of Net Position  
June 30, 2015

Amounts reported for governmental activities in the Statement of  
Net Position are different because:

Fund balances - total governmental funds	\$ 74,161,745
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	366,530,197
Delinquent property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities	320,126
Grant revenues not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities	2,191,609
Original issue discounts and premiums are not current financial resources or obligations and, therefore, are not reported in the funds:	
Bond discounts (net of amortization)	153,538
Bond underwriter premiums (net of amortization)	(1,551,615)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in funds:	
Deferred outflows related to employer contribution subsequent to the measurement date	9,437,099
Deferred inflows related to changes in proportion	(7,349,283)
Deferred inflows related to actuarial experience	(2,050,205)
Deferred inflows related to investment experience	(12,511,195)
Accrued interest is not due and payable with current financial resources and, therefore, is not reported in the funds	(866,255)
Certain liabilities, including bonds payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds:	
General obligation and revenue bonds	(67,410,000)
Current and noncurrent portion of accrued compensated absences	(519,018)
Net pension liability	(137,629,661)
Total net position - governmental activities	<u>\$ 222,907,082</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2015

	General Fund 11000, 12000, 13000, 14000	Title I - IASA Special Revenue Fund 24101	Impact Aid Indian Education Special Revenue Fund 25147
<i>Revenues</i>			
Property taxes	\$ 354,278	\$ -	\$ -
Oil and gas taxes	1,048	-	-
Intergovernmental revenue			
Federal flowthrough	219,207	6,949,674	-
Federal direct	29,888,366	-	7,347,305
Local sources	14,290	-	-
State flowthrough	803,355	-	-
State direct	64,596,606	-	-
Combined local/state	-	-	-
Transportation distribution	5,657,097	-	-
Charges for services	881,467	-	-
Interest	-	-	-
Miscellaneous	35,937	-	-
<i>Total revenues</i>	<u>102,451,651</u>	<u>6,949,674</u>	<u>7,347,305</u>
<i>Expenditures</i>			
Current			
Instruction	51,958,701	6,592,408	388,106
Support services - students	4,511,055	-	3,384,161
Support services - instruction	1,975,150	192,181	997,630
Support services - general administration	544,933	124,769	237,157
Support services - school administration	6,632,011	-	226
Central services	2,997,962	46,910	432,954
Operation and maintenance of plant	16,028,089	-	-
Student transportation	5,326,048	-	-
Other support services	127,771	-	-
Food services operations	-	-	-
Capital outlay	380,422	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
<i>Total expenditures</i>	<u>90,482,142</u>	<u>6,956,268</u>	<u>5,440,234</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>11,969,509</u>	<u>(6,594)</u>	<u>1,907,071</u>
<i>Other financing sources (uses)</i>			
Remittal of prior year fund balance	-	-	-
Bond proceeds	-	-	-
Bond premium	-	-	-
Bond discounts	-	-	-
Transfers in	108,560	-	-
Transfers out	(3,330,978)	-	-
<i>Total other financing sources (uses)</i>	<u>(3,222,418)</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	8,747,091	(6,594)	1,907,071
<i>Fund balances - as originally stated</i>	15,136,388	6,594	7,491,408
<i>Fund balances - restatement (note 17)</i>	(66,411)	-	-
<i>Fund balances - beginning as restated</i>	<u>15,069,977</u>	<u>6,594</u>	<u>7,491,408</u>
<i>Fund balances - ending of year</i>	<u>\$ 23,817,068</u>	<u>\$ -</u>	<u>\$ 9,398,479</u>

The accompanying notes are an integral part of these financial statements

Bond Building Capital Projects 31100	Public School Capital Outlay 31200	Debt Service 41000	Other Governmental Funds	Total
\$ -	\$ -	\$ 6,932,628	\$ 1,664,254	\$ 8,951,160
-	-	17,449	4,188	22,685
-	-	-	11,975,667	19,144,548
-	-	-	3,916,679	41,152,350
-	-	-	27,021	41,311
-	-	-	4,268,822	5,072,177
15,078	12,749,931	-	196,859	77,558,474
-	-	-	53,008	53,008
-	-	-	-	5,657,097
-	-	-	1,020,255	1,901,722
4,455	-	7,335	176	11,966
-	-	-	24,313	60,250
19,533	12,749,931	6,957,412	23,151,242	159,626,748
-	-	-	8,545,474	67,484,689
-	-	-	2,462,072	10,357,288
-	-	-	666,191	3,831,152
-	-	69,179	203,241	1,179,279
-	-	-	1,003	6,633,240
-	-	-	121,845	3,599,671
12,899	-	-	1,227,422	17,268,410
-	-	-	97,845	5,423,893
-	-	-	-	127,771
-	-	-	6,381,286	6,381,286
4,375,907	12,749,931	-	2,109,134	19,615,394
-	-	6,680,000	-	6,680,000
-	-	1,930,850	-	1,930,850
4,388,806	12,749,931	8,680,029	21,815,513	150,512,923
(4,369,273)	-	(1,722,617)	1,335,729	9,113,825
-	-	-	(162,847)	(162,847)
9,000,000	-	-	-	9,000,000
-	-	575,421	-	575,421
(49,211)	-	-	-	(49,211)
-	-	3,068,901	262,077	3,439,538
-	-	-	(108,560)	(3,439,538)
8,950,789	-	3,644,322	(9,330)	9,363,363
4,581,516	-	1,921,705	1,326,399	18,477,188
9,872,910	1	12,017,351	11,226,316	55,750,968
(227,251)	-	-	227,251	(66,411)
9,645,659	1	12,017,351	11,453,567	55,684,557
\$ 14,227,175	\$ 1	\$ 13,939,056	\$ 12,779,966	\$ 74,161,745

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**STATE OF NEW MEXICO**  
**Gallup-McKinley County Public Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2015**

Exhibit B-2  
Page 2 of 2

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Net change in fund balances - total governmental funds	\$ 18,477,188
--	---------------

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

Capital expenditures reported as capital outlay expenditures	19,615,394
Depreciation expense	(12,024,408)

In the Statement of Activities, only the loss on the disposition of capital assets is reported,  
whereas in the governmental funds, the proceeds from the disposition increase  
financial resources. Thus, the change in net position differs from the change in  
fund balance by the book value cost of the capital assets disposed.

(78,940)

Revenues in the Statement of Activities that do not provide current financial  
resources are not reported as revenue in the funds:

Change in unavailable revenue related to property taxes receivable	(17,804)
Change in unavailable revenue related to grant receivables	2,191,609

Governmental funds report district pension contributions as expenditures. However  
in the Statement of Activities, the cost of pension benefits earned net of employee  
contributions is reported as pension expense

District pension contribution	9,437,099
Pension expense	(6,976,435)

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to  
governmental funds, while the repayment of the principal of long-term debt consumes the current  
financial resources of governmental funds. Also, governmental funds report the effect  
of premiums, discounts, and similar items when debt is first issued, whereas these amounts are  
deferred and amortized in the Statement of Activities:

Current year bond discount	49,211
Current year bond premium	(575,421)
Amortization of bond discount	(11,830)
Amortization of bond premiums	136,531
Change in compensated absences	(177,187)
Change in accrued interest	(59,747)
Bond proceeds	(9,000,000)
Principal payments on bonds	6,680,000

Change in net position of governmental activities	\$ 27,665,260
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**STATE OF NEW MEXICO**

Exhibit C-1

Gallup-McKinley County Public Schools  
General Fund - 11000, 12000, 13000, 14000

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues</i>				
Property taxes	\$ 346,334	\$ 346,334	\$ 353,362	\$ 7,028
Oil and gas taxes	993	993	1,190	197
Intergovernmental				
Federal flowthrough	180,000	180,000	219,207	39,207
Federal direct	18,741,303	25,545,511	28,049,164	2,503,653
Local sources	11,000	11,000	14,290	3,290
State flowthrough	594,438	825,257	803,355	(21,902)
State direct	70,075,467	63,271,259	64,548,112	1,276,853
Transportation distribution	5,168,917	5,654,723	5,543,392	(111,331)
Charges for services	634,500	634,500	881,219	246,719
Miscellaneous	14,281	14,281	34,267	19,986
<i>Total revenues</i>	<u>95,767,233</u>	<u>96,483,858</u>	<u>100,447,558</u>	<u>3,963,700</u>
<i>Expenditures</i>				
Current				
Instruction	57,078,368	57,524,500	47,191,590	10,332,910
Support services - students	5,021,374	5,021,374	4,509,731	511,643
Support services - instruction	2,208,919	2,211,488	1,778,395	433,093
Support services - general administration	933,989	933,989	547,041	386,948
Support services - school administration	7,091,899	7,092,756	6,631,445	461,311
Central services	3,220,703	3,220,703	3,045,868	174,835
Operation and maintenance of plant	18,206,846	18,206,824	16,111,581	2,095,243
Student transportation	5,163,917	5,611,617	5,522,392	89,225
Other support services	128,337	128,337	75,088	53,249
Capital outlay	161,285	326,955	145,953	181,002
<i>Total expenditures</i>	<u>99,215,637</u>	<u>100,278,543</u>	<u>85,559,084</u>	<u>14,719,459</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(3,448,404)</u>	<u>(3,794,685)</u>	<u>14,888,474</u>	<u>18,683,159</u>
<i>Other financing sources (uses)</i>				
Designated cash balance (budgeted increase in cash)	3,448,404	3,794,685	-	(3,794,685)
Transfers in	-	-	253,657	253,657
Transfers (out)	-	-	(3,542,486)	(3,542,486)
<i>Total other financing sources (uses)</i>	<u>3,448,404</u>	<u>3,794,685</u>	<u>(3,288,829)</u>	<u>(7,083,514)</u>
<i>Net change in fund balances</i>	-	-	11,599,645	11,599,645
<i>Fund balances - beginning of year</i>	-	-	15,149,500	15,149,500
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,749,145</u>	<u>\$ 26,749,145</u>
<i>Net change in fund balances (Budget Basis)</i>				\$ 11,599,645
Adjustments to revenues for property taxes, oil and gas taxes, and state flowthrough				1,858,996
Adjustments to expenditures for salaries, general supplies and material, and other contract services				<u>(4,711,550)</u>
<i>Net change in fund balances (GAAP Basis)</i>				<u>\$ 8,747,091</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**

Exhibit C-2

Gallup-McKinley County Public Schools

Title I - IASA Special Revenue Fund - 24101

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues</i>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Oil and gas taxes	-	-	-	-
Intergovernmental revenue				
Federal flowthrough	6,891,897	7,854,524	8,582,249	727,725
Federal direct	-	-	-	-
Local sources	-	-	-	-
State flowthrough	-	-	-	-
State direct	-	-	-	-
Combined local/state	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>6,891,897</u>	<u>7,854,524</u>	<u>8,582,249</u>	<u>727,725</u>
<i>Expenditures</i>				
Current				
Instruction	6,376,376	7,386,532	6,270,129	1,116,403
Support services - students	4,500	4,500	-	4,500
Support services - instruction	318,598	248,783	192,181	56,602
Support services - general administration	143,601	165,887	124,769	41,118
Support services - school administration	-	-	-	-
Central services	48,822	48,822	46,910	1,912
Operation and maintenance of plant	-	-	-	-
Food services operations	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>6,891,897</u>	<u>7,854,524</u>	<u>6,633,989</u>	<u>1,220,535</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>1,948,260</u>	<u>1,948,260</u>
<i>Other financing sources (uses)</i>				
Designated cash balance (budgeted increase in cash)	-	-	-	-
Transfers in (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	-	-	1,948,260	1,948,260
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>(4,591,814)</u>	<u>(4,591,814)</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,643,554)</u>	<u>\$ (2,643,554)</u>
<i>Net change in fund balances (Budget Basis)</i>				\$ 1,948,260
Adjustments to revenues for federal flowthrough grants.				(1,632,575)
Adjustments to expenditures for other professional services.				(322,279)
<i>Net change in fund balances (GAAP Basis)</i>				<u>\$ (6,594)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Impact Aid Indian Education Special Revenue Fund - 25147  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2015

Exhibit C-3

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues</i>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Oil and gas taxes	-	-	-	-
Intergovernmental revenue				
Federal flowthrough	-	-	-	-
Federal direct	-	-	6,888,996	6,888,996
Local sources	-	-	-	-
State flowthrough	-	-	-	-
State direct	-	-	-	-
Combined local/state	-	-	-	-
Charges for services	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>6,888,996</u>	<u>6,888,996</u>
<i>Expenditures</i>				
Current				
Instruction	782,964	887,124	98,516	788,608
Support services - students	3,785,467	3,824,354	3,384,161	440,193
Support services - instruction	1,340,399	1,253,516	998,456	255,060
Support services - general administration	278,460	285,960	237,157	48,803
Support services - school administration	-	40,000	226	39,774
Central services	712,710	609,046	435,381	173,665
Operation and maintenance of plant	-	-	-	-
Food services operations	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>6,900,000</u>	<u>6,900,000</u>	<u>5,153,897</u>	<u>1,746,103</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(6,900,000)</u>	<u>(6,900,000)</u>	<u>1,735,099</u>	<u>8,635,099</u>
<i>Other financing sources (uses)</i>				
Designated cash balance (budgeted increase in cash)	6,900,000	6,900,000	-	(6,900,000)
Transfers in (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>6,900,000</u>	<u>6,900,000</u>	<u>-</u>	<u>(6,900,000)</u>
<i>Net change in fund balances</i>	-	-	1,735,099	1,735,099
<i>Fund balances - beginning of year</i>	-	-	7,440,668	7,440,668
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,175,767</u>	<u>\$ 9,175,767</u>
<i>Net change in fund balances (Budget Basis)</i>				\$ 1,735,099
Adjustments to revenues for federal direct revenue accruals				458,309
Adjustments to expenditures for other contract services				<u>(286,337)</u>
<i>Net change in fund balances (GAAP Basis)</i>				<u>\$ 1,907,071</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2015

Exhibit D-1

*Assets*

Cash and cash equivalents	<u>\$ 682,019</u>
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<i>Total assets</i>	<u><u>\$ 682,019</u></u>
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*Liabilities*

Due to student organizations	<u>\$ 682,019</u>
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<i>Total liabilities</i>	<u><u>\$ 682,019</u></u>
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The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies**

Gallup-McKinley County Public Schools (the District) is a special purpose government corporation governed by an elected five-member Board of Education. The Board of Education is the basic level of government, which has oversight responsibility and control over all activities related to the public school education of the City of Gallup and McKinley County. The District is responsible for all activities related to public elementary and secondary school education within its jurisdiction. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

The school board is authorized to establish policies and regulations for its own government consistent with the laws of the State of New Mexico and the regulations of the Legislative Finance Committee. The School Board is comprised of five members who are elected for terms of four years. The District operates thirty five schools and one charter school within the District with a total enrollment of approximately 12,000 pupils. In conjunction with the regular educational programs, some of these schools offer special education. In addition, the District provides transportation and school food services for the students.

This summary of significant accounting policies of the District is presented to assist in the understanding of the District's and the Charter School's financial statements. The financial statements and notes are the representation of the District's management that is responsible for the financial statements. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

During the year ended June 30, 2015, the District and the Charter School adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* ("GASB 68"), and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* ("GASB 71"). These two Statements are required to be implemented at the same time. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit plan, plan assets are also legally protected from creditors of the plan members.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of the implementation of GASB 68, the government recognized a net pension liability ("NPL") measured as of a date no later than the end of its prior fiscal year. If the government employer makes a contribution to the pension plan subsequent to the measurement date but prior to the end of the current fiscal year, GASB 68 requires the government to recognize that contribution as a deferred outflow of resources. In addition, GASB 68 requires the recognition of deferred outflows of resources and deferred inflows of resources for changes in the NPL that arise from other types of events, but does not require the government to recognize beginning deferred outflows of resources or deferred inflows of resources if the amounts are not practical to estimate. At transition to Statement 68, Statement 71 requires the employer or nonemployer contributing entity to recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year, thus avoiding possible understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation. This pronouncement has materially impacted the financial statements and additional disclosures are included in the notes to the financial statements to highlight the effects.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

**A. *Financial Reporting Entity***

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

The District's Board of Education approved the Middle College Charter School for operations in accordance with the criteria listed above. The charter school is deemed to be fiscally dependent upon the District and has been deemed to be a separate legal entity based on state statute and is presented as a discrete component unit. The discretely presented component unit does not have separately issued financial statements.

**B. *Government-wide and fund financial statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis by column, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – Net investment in capital assets, restricted net position; and unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, state equalization, and other items not properly included among program revenues are reported instead as *general revenues*.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.



**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*B. Government-wide and fund financial statements (continued)*

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*C. Measurement focus, basis of accounting, and financial statement presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 120 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to the availability criterion. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, subject to the availability criterion.

Ad valorem taxes (property taxes), and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period; net of estimated refunds and uncollectible amounts for government-wide statements. For fund financial statements these revenues are recognized as revenues when measurable and available. Derived tax revenues are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items (which include state equalization and state revenue sharing) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All other revenue items are considered to be measurable and available only when cash is received by the government.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

C. *Measurement focus, basis of accounting, and financial statement presentation (continued)*

The District reports the following major governmental funds:

The *General Fund (11000, 12000, 13000, 14000)* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided by School tax levy, state equalization and transportation funds, state instructional material allocations, and earnings from investments. Expenditures include all costs associated with the daily operations of the District except for those items included in other funds. The General Fund includes the *Transportation Fund*, which is used to account for the Transportation Distribution received from the New Mexico Public Education Department which is used to pay for the costs associated with transporting school age children. It also includes the *Instructional Materials Fund*, which is used to account for the monies received from the New Mexico Public Education Department for the purposes of purchasing instructional materials (books, manuals, periodicals, etc.) used in the education of students.

The *Title I – IASA Special Revenue Fund (24101)* is used to provide supplemental educational opportunity for academically disadvantaged children residing in the area. Campuses are identified for program participation by the percentage of students on free or reduced price lunches. Any school with a free and reduced price lunch percentage that is equal to or greater than the total district percentage becomes eligible for program participation. Any student whose test scores fall below District established criteria and who is attending a Title I campus is eligible to receive Title I services. Poverty is the criteria that identify a campus; educational need determines the students to be served. Federal revenues accounted for in this fund are allocated to the District through the New Mexico Public Education Department. Authority for creation of this fund is Part A of Chapter I of Title I of Elementary and Secondary Education Act (ESEA) of 1965, as amended, Public Law 103-383.

The *Impact Aid Indian Education Special Revenue Fund (25147)* is used to account for resources provided to the District which are to be used for supplemental special education for students in federally impacted areas. Funding is provided by PL 81-874.

The *Bond Building Capital Projects Fund (31100)* is used to account for bond proceeds plus any income earned thereon. The proceeds are restricted for the purpose of making additions to and furnishing of school buildings, or purchasing or improving school grounds or any combination thereof, as approved by the voters of the district. Funding authority is the New Mexico Public Education Department.

The *Public School Capital Outlay Capital Projects Fund (31200)* is to account for funds received from the New Mexico Public School Facilities Authority (PSFA) for: capital expenditures for an adequate education program; core administrative function of the public school facilities authority and for project management expense upon approval of the council; and for the purpose of demolishing abandoned school district facilities. Funding authority is Chapter 22, Article 24, NMSA 1978.

The *Debt Service Fund (41000)* is used to accumulate resources for payment of principal and interest due on educational technology bonds. Financing is provided by a special tax levy approved by the voters, assessed by the McKinley County Assessor, and collected and remitted to the District by the McKinley County Treasurer.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

C. *Measurement focus, basis of accounting, and financial statement presentation (continued)*

Additionally, the government reports the following agency fund:

The *Fiduciary Funds* account for assets held by the District in a trustee capacity or as an agent for student activity funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity*

**Deposits and Investments:** The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Local Government Investment Pool (LGIP). The LGIP operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of pool shares. As of June 30, 2015, the District does not have any investments with Local Governmental Investment Pool.

**Restricted Assets:** The Debt Service Fund is used to report resources set aside for the payment of long-term debt principal and interest.

**Receivables and Payables:** Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

The District receives monthly income from a tax levy from McKinley County. The funds are collected by the County Treasurer and are remitted to the District the following month. Under the modified accrual method of accounting, the amount remitted by the County Treasurer in July and August 2015 is considered 'measurable and available' and, accordingly, is recorded as revenue in the governmental fund statements during the year ended June 30, 2015. Period of availability is deemed to be sixty days subsequent to year end.

Certain Special Revenue funds are administered on a reimbursement method of funding; other funds are operated on a cash advance method of funding. The funds incurred the cost and submitted the necessary request for reimbursement or advance, respectively. Period of availability is deemed to be 120 subsequent to year end.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

D. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)*

**Inventory:** The District's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of U.S.D.A. commodities and other purchased food and non-food supplies. The cost of purchased food is recorded as an expenditure at the time individual inventory items are consumed.

Inventory in the Special Revenue Funds consists of U.S.D.A. commodities and other purchased food and non-food supplies. Commodities consumed during the year are reported as revenues and expenditures; unused commodities are reported as inventories. Inventories in the General Fund consist of maintenance and custodial supplies, as well as tires and maintenance supplies for the buses in the transportation department. Inventories in the Capital Improvements SB-9 Capital Projects Fund consist of maintenance and repair supplies for the District buildings.

**Capital Assets:** Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). The District was a phase I government for purposes of implementing GASB 34 however, the District does not have any infrastructure assets to report.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Library books are deemed to have useful lives of one year and are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction. Construction projects paid for by the Public School Capital Outlay Council are included in the District's capital assets.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Furniture, fixtures, and equipment	3-12

**Accrued Payroll:** In the fund financial statements, governmental fund types recognize the accrual of unpaid wages and benefits that employees have earned at the close of each fiscal year. The amount recognized in the fund financial statements represents checks that were held at year end in relation to employee's summer payroll.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

D. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)*

**Deferred Inflows of Resources:** In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The District has two types of items, which arises under the modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items, unavailable revenue - property taxes and unavailable revenue - grants, are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has recorded \$320,126 related to property taxes and \$2,191,609 related to grants considered "unavailable." In addition, the District and the Charter School each have items present on the Statement of Net Position which arise due to the implementation of GASB Statement No. 68 and the related net pension liability. Accordingly, the District's items, change in proportion \$7,349,283, actuarial experience \$2,050,205 and investment experience \$12,511,195, are reported on the Statement of Net Position. The Charter School's items, actuarial experience \$11,777 and investment experience \$71,868, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Deferred Outflows of Resources:** In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The District and the Charter School each have item(s) that qualify for reporting in this category. Accordingly, the District's employer contributions subsequent to measurement date is \$9,437,099. The Charter School's employer contributions subsequent to measurement date of \$65,260 and change in proportion of \$22,356. These amounts are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources the next period.

**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 position of the Educational Retirement Board (ERB) and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are reported by ERB, 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.

**Compensated Absences:** Twelve-month employees are entitled to accumulate annual leave up to 15 days (20 days for Superintendent, Associate Superintendents and Chief Financial Officer) per year. Days earned will be prorated based upon hire date. Annual leave is supposed to be taken in the year earned or the succeeding fiscal year; however, a maximum of 15 days (20 days for Superintendent, Associate Superintendent and Chief Financial Officer), depending on the employment status of the employee, may be carried over to the succeeding year. Administrators may also choose to put days into the employee's annual leave bank. Administrative employee's annual leave bank may accumulate up to a maximum of 30 working days. Any additional days over the 30 days are lost. Once days are banked they may not be withdrawn, except for use under FMLA provisions or other extenuating circumstances approved by the Superintendent. Upon termination, employees are paid for their accrued annual leave, up to a maximum of 30 days.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

- D. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity* (continued)

**Compensated Absences (continued):** Qualified employees are entitled to 12 to 15 days of sick leave per year depending upon length of contract and hire date. There is no limit to the amount of sick leave which an employee may accumulate; however, the only employees that are eligible to be paid out are those that are retiring that have provided a written notice of an intent to retire to the personnel office no later than April 15 of the current fiscal year. The rate of payment is determined annually based upon current budgetary considerations and is announced by a memo from the Superintendent.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net position.

**Long-term Obligations:** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method or straight line method if the difference from the effective interest method is minimal.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Balance Classification Policies and Procedures:** The District has implemented GASB Statement No. 54 and has defined the various categories reported in fund balance. For committed fund balance, the District's highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish a fund balance commitment is the Board of Education.

For assigned fund balance, the Board of Education or an official or body to which the School Board of Education delegates the authority is authorized to assign amounts to a specific purpose. The authorization policy is in governmental funds other than the general fund, unassigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

For the classification of fund balances, the District considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the District considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Nonspendable Fund Balance:** At June 30, 2015, the nonspendable fund balance of the District is comprised of the following inventory amounts, which are not in spendable form:

Operational Fund (11000)	\$ 237,560
Pupil Transportation (13000)	333,830
Food Service Special Revenue Fund (21000)	77,514
Capital Improvements SB-9 Capital Projects Fund (31700)	345,769

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

D. *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)*

**Restricted and Committed Fund Balance:** At June 30, 2015, the restricted fund balance on the governmental funds balance sheet is made up of \$13,045,869 for providing education to the students of the District, \$2,410,474 for providing food service to the students of the District, \$20,291,906 for the purpose of erecting, remodeling, making additions to and furnishing school buildings and purchasing or improving school grounds and purchasing computer software and hardware for student use in public schools, providing matching funds for capital outlay projects funded pursuant to the Public School Capital Outlay Act [22-24-1 NMSA 1978], or any combination of these purposes, \$13,939,056 for the payment of principal and interest of the future debt service requirements, \$1,664,851 for athletics administered, and \$5,852,318 for subsequent year's expenditures within the District.

**Minimum Fund Balance Policy:** The District's policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. The District has not developed a policy for maintaining a minimum amount of fund balance as of June 30, 2015.

**Net Position:** Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets: Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The District includes unspent bond proceeds in the amount of \$17,234,422 in the calculation of net investment in capital assets.
- b. Restricted Net Position: Net position is reported as restricted when constraints are placed on the uses either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net position restricted for "special revenue, debt service, and capital projects" are described on pages 38 and 84-93.
- c. Unrestricted Net Position: Net position that does not meet the definition of "Restricted" or "Net Investment in Capital Assets."

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates for the District are management's estimate of estimated useful lives, net pension liability calculations, and the current portion of accrued compensated absences.

E. *Revenues*

**State Equalization Guarantee:** School districts in the State of New Mexico receive a 'state equalization guarantee distribution' which is defined as "that amount of money distributed to each school district to insure that the school district's operating revenue, including its local and federal revenues as defined (in Chapter 22, Section 825, NMSA 1978) is at least equal to the school district's program costs." A school district's program costs are determined through the use of various formulas using 'program units' which take into consideration 1) early childhood education; 2) basic education; 3) special education; 4) bilingual-multicultural education; 5) size, etc. Payment is made from the public school fund under the authority of the Director of Public School Finance. The District and Charter School received \$63,296,435 and \$841,247, respectively, in state equalization guarantee distributions during the year ended June 30, 2015.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*E. Revenues (continued)*

**Tax Revenues:** The District receives mill levy and ad-valorem tax revenues primarily for debt service and capital outlay purposes. Property taxes are assessed on January 1st of each year and are payable in two equal installments, on November 10th of the year in which the tax bill is prepared and April 10th of the following year with the levies becoming delinquent 30 days (one month) thereafter. The District recognizes tax revenues in the period for which they are levied in the government-wide financial statements.

The District records only the portion of the taxes considered 'measurable' and 'available' in the governmental fund financial statements. The District recognized \$8,951,160 in property tax revenues in the governmental fund financial statements during the year ended June 30, 2015. Descriptions of the individual debt service and capital outlay funds contained in these financial statements include information regarding the authority for the collection and use of these taxes.

**Transportation Distribution:** School districts in the State of New Mexico receive student transportation distributions. The transportation distribution is allocated to each school district in accordance with formulas developed by the State Transportation Director and the Director of Public School Finance. The funds shall be used only for the purpose of making payments to each school district for the to-and-from school transportation costs of students in grades K through twelve attending public school within the school district. The District received \$5,657,097 in transportation distributions during the year ended June 30, 2015.

**Instructional Materials:** The Public Education Department (Department) receives federal mineral leasing funds from which it makes annual allocations to the various school districts for the purchase of educational materials. Of each allocation, seventy percent is restricted to the requisition of materials listed in the State Board of Education "State Adopted Instructional Material" list, while thirty percent of each allocation is available for purchases directly from vendors. The District received \$798,258 in instructional materials revenue from the State for the year ended June 30, 2015.

**SB-9 State Match:** The Director shall distribute to any school district that has imposed a tax under the Public School Capital Improvements Act (22-25-1 to 22-25-10 NMSA 1978) an amount from the public school capital improvements fund that is equal to the amount by which the revenue estimated to be received from the imposed tax as specified in Subsection B of Section 22-25-3 NMSA 1978, assuming a one hundred percent collection rate, is less than an amount calculated by multiplying the product obtained by the rate imposed in the Schools under the Public School Capital Improvements Act. The distribution shall be made by December 1 of each year that the tax is imposed in accordance with Section 22-25-3 NMSA 1978. However, in the event that sufficient funds are not available in the public school capital improvement funds to make the state distribution provided for in this section, the dollar per program unit figure shall be reduced as necessary. The District received \$1,668,884 in state SB-9 matching during the year ended June 30, 2015.

**Public School Capital Outlay:** The public school capital outlay fund was created under the provisions of Chapter 22, Article 24, NMSA 1978. The money in the fund may be used for: capital expenditures deemed by the public school capital outlay council to be necessary for an adequate education program per Section 22-24-4(B); core administrative function of the public school facilities authority and for project management expense upon approval of the council per Section 22-24-4(G); and for the purpose of demolishing abandoned school district facilities, upon application by a school district to the council, per Section 22-24-4(L). The District received \$12,749,931 in PSCOC awards during the year ended June 30, 2015.

Money in the fund shall be disbursed by warrant of the Department of Finance and Administration on vouchers signed by the Secretary of Finance and Administration following certification by the council that the application has been approved.

During the year ended June 30, 2015, the District did not receive any money in state flow-through capital outlay funds.



**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*E. Revenues (continued)*

**Federal Grants:** The District receives revenues from various Federal departments (both direct and indirect), which are legally restricted to expenditures for specific purposes. These programs are reported as Special Revenue Funds. Each program operates under its own budget, which has been approved by the Federal Department or the flowthrough agency (usually the New Mexico Public Education Department). The various budgets are approved by the Local School Board and the New Mexico Public Education Department.

The District also receives reimbursement under the National School Lunch and School Breakfast Programs for its food services operations, and the distribution of commodities through the New Mexico Human Services Department. All charges for services are recorded as operating income.

**NOTE 2. Stewardship, Compliance and Accountability**

*Budgetary Information*

Budgets for the General, Special Revenue, Debt Service, and Capital Projects funds are prepared by management and are approved by the local Board of Education and the School Budget and Planning Unit of the Public Education Department. Auxiliary student activity accounts are not budgeted.

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, such appropriated balance is legally restricted and is therefore presented as restricted fund balance.

Actual expenditures may not exceed the budget at the function (or “series”) level. Budgets may be amended in two ways. If a budget transfer is necessary within a major category called a ‘series’ this may be accomplished with only local Board of Education approval. If a transfer between ‘series’ or a budget increase is required, approval must also be obtained from Public School Finance Division.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In April or May, the local school board submits to the District Budget Planning Unit (DBPU) of the New Mexico Public Education Department (PED) a proposed operating budget for the ensuing fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. All budgets are submitted to the State of New Mexico Public Education Department.
2. In May or June of each year, the proposed “operating” budget will be reviewed and approved by the DBPU and certified and approved by the local school board at a public hearing of which notice has been published by the local school board which fixes the estimated budget for the school district for the ensuing fiscal year.
3. The school board meeting is open for the general public unless a closed meeting has been called.
4. The “operating” budget will be used by the District until they have been notified that the budget has been approved by the DBPU and the local school board. The budget shall be integrated formally into the accounting system. Encumbrances shall be used as an element of control and shall be integrated into the budget system.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 2. Stewardship, Compliance and Accountability (continued)**

*Budgetary Information (continued)*

5. The District shall make corrections, revisions and amendments to the estimated budgets fixed by the local school board to recognize actual cash balances and carryover funds, if any. These adjustments shall be reviewed and approved by the DBPU.
6. The superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the school board and the State of New Mexico Public Education Department.
7. Budget change requests are processed in accordance with Supplement 1 (Budget Preparation and Maintenance) of the Manual of Procedures Public School Accounting and Budgeting. Such changes are initiated by the school district and approved by the DBPU.
8. Legal budget control for expenditures is by function.
9. Appropriations lapse at fiscal year end. Funds unused during the fiscal year may be carried over into the next fiscal year by budgeting those in the subsequent fiscal year's budget. The budget schedules included in the accompanying financial statements reflect the original budget and the final budget.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The School Board may approve amendments to the appropriated budget, which are required when a change is made affecting budgeted ending fund balance. New Mexico Administrative Code 6.20.2.9 prohibits a District from exceeding budgetary control at the function level.

The appropriated budget for the year ended June 30, 2015, was properly amended by the District's Board of Education throughout the year. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund - 11000, 120000, 13000, 14000	\$ (3,448,404)	\$ (3,794,685)
Title I - IASA Special Revenue Fund - 24101	\$ -	\$ -
Impact Aid Indian Education Special Revenue Fund - 25147	\$ (6,900,000)	\$ (6,900,000)
Bond Building Capital Projects Fund - 31100	\$ (6,000,000)	\$ (18,871,662)
Public School Capital Outlay Capital Projects Fund - 31200	\$ -	\$ -
Debt Service Fund - 41000	\$ (4,175,452)	\$ (4,750,873)
Other Governmental Funds	\$ (6,827,045)	\$ (10,238,001)

The District is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

The Districts budgets on a modified cash basis with payroll or held checks being accrued and expensed, therefore, fund balances on the budget statements do not reconcile to cash due to the District's accrued payroll which is presented on the accrual basis.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 3. Deposits and Investments**

Section 22-8-40, NMSA 1978 authorizes the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, the state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed State investment requirements as of June 30, 2015.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized by the financial institution as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance. The collateral pledged is listed on Schedule V in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, District or political subdivision of the State of New Mexico.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

Beginning January 1, 2013, all of the District's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2015, \$68,777,363 of the District's bank balance of \$69,527,363 was subject to custodial credit risk. \$64,808,224 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the District's name. \$3,969,139 of the District's deposits was uninsured and uncollateralized at June 30, 2015.

	Bank of America	Pinnacle Bank	Wells Fargo Bank	Total
Total amount of deposits	\$ 52,738,605	\$ 16,251,727	\$ 537,031	\$ 69,527,363
FDIC Coverage	(250,000)	(250,000)	(250,000)	(750,000)
Total uninsured public funds	<u>52,488,605</u>	<u>16,001,727</u>	<u>287,031</u>	<u>68,777,363</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	<u>52,488,605</u>	<u>12,100,513</u>	<u>219,106</u>	<u>64,808,224</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 3,901,214</u>	<u>\$ 67,925</u>	<u>\$ 3,969,139</u>
Collateral requirement (50% of uninsured)	\$ 26,244,303	\$ 8,000,864	\$ 143,516	\$ 34,388,683
Pledged securities	<u>54,077,951</u>	<u>12,100,513</u>	<u>219,106</u>	<u>66,397,570</u>
Over (under) collateralization	<u>\$ 27,833,648</u>	<u>\$ 4,099,649</u>	<u>\$ 75,590</u>	<u>\$ 32,008,887</u>

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 3. Deposits and Investments (continued)**

**Investments:**

*Investment Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk. New Mexico State Statutes require collateral pledged to be delivered for securities underlying an overnight repurchase agreement, or a joint safekeeping receipt be issued to the District for at least one hundred two percent of the fair value of the securities underlying overnight repurchase accounts invested with the institution. At June 30, 2015, the District's investment balances were exposed to custodial credit risk as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Treasury MM Mutual Funds	>365 days	\$ 2,008,367	Aaa*

\*Based on Moody's Rating

At June 30, 2015 there was \$49,796 of U.S. Treasury Money Market Mutual funds classified as restricted cash and cash equivalents at exhibit B-1.

The investments are listed on Schedule III of this report. The types of investment, interest rate, maturity date and fair value per security are included in the schedule.

*Interest Rate Risk – Investments.* The District does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

*Concentration Credit Risk – Investments.* For an investment, concentration credit risk is when any one issuer is 5% or more of the investment portfolio of the District. The investments in US Treasury Money Market Mutual Funds represent 100% of the District's investment portfolio. Since the District only purchases investments with the highest credit rating, the additional concentration is not viewed to be an additional risk by the District. The District's policy related to concentration credit risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 3. Deposits and Investments (continued)**

The District utilizes pooled accounts for some of their programs and funds. Negative cash balances in individual funds that were part of the pooled accounts were reclassified as due to/from accounts in the combining balance sheets as of June 30, 2015. Funds 24000 through 25000 are federal funds and 26000 through 28000 are nonfederal funds. The following individual funds had negative cash balances as of June 30, 2015:

**Primary Government**

24101	Title I - IASA	\$ 2,643,554
24106	Entitlement IDEA-B	642,512
24108	New Mexico Autism Project	3,900
24109	Preschool IDEA-B	59,090
24113	Education of Homeless	3,958
24115	Private Schools Share IDEA-B	20,136
24118	Fresh Fruit and Vegetables	23,766
24119	21st Century Community Living & Learning Centers 08/14	423,393
24132	IDEA-B Results Plan	148,772
24153	English Language Acquisition	57,938
24154	Teacher/Principal Training and Recruiting	650,045
24160	Rural and Low Income Schools	171,398
24162	Title I School Improvement	83,833
24174	Carl D Perkins Secondary- Current	58,111
24183	USDA 2010 Equipment Assistance Program	11,145
25131	Johnson O'Malley	513,208
25201	Navajo Nations	100,656
26143	Save the Children	14,841
26201	Pump up the Volume in Preschools	10,263
27103	Dual Credit Instructional Materials/HB2	36,495
27107	2012 GO Bond Student Library SB-66	17,212
27114	New Mexico Reads to Lead K-3 Reading Initiative	60,003
27149	Pre-K Initiative	144,643
27150	Indian Education Act	18,373
27168	After School Enrichment Program	39,212
27178	2013 School Bus	748,748
27188	Teacher and School Leader Incentive Pay	234,730
28106	School Wellness HED	322
28191	Start Smart K-3 Plus Utah State University Study	10,105
28193	CYFD Parents as Teacher Model	82,146
		<hr/>
	Total	<u><u>\$ 7,032,508</u></u>

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 3. Deposits and Investments (continued)**

Reconciliation to the Statement of Net Position

The carrying amount of deposits and investments shown above are included in the District's Statement of Net Position as follows:

Cash and cash equivalents per Exhibit A-1	\$ 55,704,191
Restricted cash and cash equivalents per Exhibit A-1	11,813,371
Restricted investment per Exhibit A-1	1,958,571
Agency cash and cash equivalents per Exhibit D-1	<u>682,019</u>
Total cash and cash equivalents	<u>70,158,152</u>
Add: Outstanding checks, and other reconciling items	3,208,346
Less: Outstanding deposits	(1,830,768)
Less: restricted cash and cash equivalents with NMFA	(49,796)
Less: restricted investments with NMFA	<u>(1,958,571)</u>
Bank balance of deposits	<u><u>\$ 69,527,363</u></u>

**Component Unit:**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Charter School deposits may not be returned to it. The Charter School does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2015, \$111,375 of the Charter School's bank balance of \$361,375 was subject to custodial credit risk. There was \$85,293 uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Charter School's name. \$26,082 of the Charter School's deposits was uninsured and uncollateralized at June 30, 2015.

	<u>Wells Fargo Bank</u>
Total amount of deposits	\$ 361,375
FDIC Coverage	<u>(250,000)</u>
Total uninsured public funds	<u>111,375</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the Component Unit's	<u>85,293</u>
Uninsured and uncollateralized	<u><u>\$ 26,082</u></u>
Collateral requirement (50% of uninsured)	\$ 55,688
Pledged securities	<u>85,293</u>
Over (under) collateralization	<u><u>\$ 29,606</u></u>

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 3. Deposits and Investments (continued)**

The Component Unit utilizes pooled accounts for some of their programs and funds. The negative cash balance in individual fund that was part of the pooled accounts was reclassified as a due to/from account in the combining balance sheets as of June 30, 2015. Fund 31700 is a nonfederal funds and had negative cash of \$184 as of June 30, 2015.

Reconciliation to the Statement of net position

The carrying amount of deposits and investments shown above are included in the District's statement of net position as follows:

Cash and cash equivalents per Exhibit A-1	\$ 342,406
Plus: outstanding checks	<u>18,969</u>
Bank balance of deposits	<u><u>\$ 361,375</u></u>

**NOTE 4. Accounts Receivable**

Accounts receivable as of June 30, 2015, are as follows:

	General Fund 11000, 12000, 13000, 14000	Title I - IASA 24101	Impact Aid Indian Education 25147	Bond Building 31100
Property taxes receivable	\$ 17,738	\$ -	\$ -	\$ -
Due from other governments				
Federal sources	2,174,851	3,029,315	537,987	-
State sources	345,305	-	-	15,078
Other receivables				
Miscellaneous	<u>6,403</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 2,544,297</u></u>	<u><u>\$ 3,029,315</u></u>	<u><u>\$ 537,987</u></u>	<u><u>\$ 15,078</u></u>
	Public School Capital Outlay 31200	Debt Service 41000	Other Governmental Funds	Total
Property taxes receivable	\$ -	\$ 416,301	\$ 99,922	\$ 533,961
Due from other governments				
Federal sources	-	-	3,605,064	9,347,217
State sources	2,562,475	-	4,942,346	7,865,204
Other receivables				
Miscellaneous	<u>-</u>	<u>547</u>	<u>1,558</u>	<u>8,508</u>
	<u><u>\$ 2,562,475</u></u>	<u><u>\$ 416,848</u></u>	<u><u>\$ 8,648,890</u></u>	<u><u>\$ 17,754,890</u></u>

In accordance with GASB No. 33, property tax revenues and grant revenue in the amount of \$320,126 and \$2,191,609, respectively, that were not collected within the period of availability have been reclassified as deferred inflows of resources – property taxes and grant revenue in the governmental fund financial statements. All of the above receivables are deemed to be fully collectible.

**STATE OF NEW MEXICO**  
Gallup-McKinley County Public Schools  
Notes to Financial Statements  
June 30, 2015

**NOTE 5. Interfund Receivables, Payables, and Transfers**

The District records temporary interfund receivables and payables to enable the funds to operate until grant monies are received.

The composition of interfund balances during the year ended June 30, 2015 is as follows:

**Primary Government:**

	<b>Due from other funds</b>	<b>Due to other funds</b>
Operational (General Fund) - 11000	\$ 7,168,642	\$ -
Title I - IASA - 24101	-	2,701,765
Entitlement IDEA-B - 24106	-	658,273
New Mexico Autism Project - 24108	-	3,900
Preschool IDEA-B - 24109	-	60,103
Education of Homeless - 24113	-	3,958
Private Schools Share IDEA-B - 24115	-	20,440
Fresh Fruits and Vegetables - 24118	-	23,766
21st Century Community Living & Learning Centers 08/14 - 24119	-	430,352
IDEA-B Results Plan - 24132	-	148,864
English Language Acquisition - 24153	-	65,125
Teacher/Principal Training and Recruiting - 24154	-	665,225
Rural and Low Income Schools - 24160	-	171,409
Title I School Improvement - 24162	-	83,892
Carl D Perkins Secondary- Current - 24174	-	58,111
USDA 2010 Equipment Assistance Program - 24183	-	11,145
Johnson O'Malley - 25131	-	513,597
Navajo Nations - 25201	-	101,737
Save the Children - 26143	-	14,841
Pump up the Volume in Preschools - 26201	-	10,263
Dual Credit Instructional Materials/HB2 - 27103	-	36,495
2012 GO Bond Student Library SB-66 - 27107	-	17,212
New Mexico Reads to Lead K-3 Reading Initiative - 27114	-	61,527
Pre-K Initiative - 27149	-	150,879
Indian Education Act - 27150	-	18,825
After School Enrichment Program - 27168	-	40,238
2013 School Bus - 27178	-	748,748
Teacher and School Leader Incentive Pay - 27188	-	252,217
School Wellness HED - 28106	-	322
Start Smart K-3 Plus Utah State University Study - 28191	-	10,105
CYFD Parents as Teacher Model - 28193	-	85,308
	<u>\$ 7,168,642</u>	<u>\$ 7,168,642</u>



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**NOTE 5. Interfund Receivables, Payables, and Transfers (continued)**

The District also recorded non cash basis “due to/due from’s” in order to move the revenues and/or expenditures that were posted in one fund to another fund during the year. The District intends to record permanent cash transfers in the coming year in order to properly allocate the cash balances. The non cash basis “due to/due from” balances at June 30, 2015 are as follows:

	<u><b>Due from other funds</b></u>	<u><b>Due to other funds</b></u>
Operational (General Fund) - 11000	\$ 14,502	\$ 74,362
Rural and Low Income Schools - 24160	74,291	-
Johnson O'Malley - 25131	-	14,353
SEG Federal Stimulus - 25250	-	149
2010 GO Bond Instructional Materials - 27171	71	-
	<u><u>\$ 88,864</u></u>	<u><u>\$ 88,864</u></u>

**Component Unit:**

	<u><b>Due from other funds</b></u>	<u><b>Due to other funds</b></u>
Operational (General Fund) - 11000	\$ 184	\$ -
Capital Improvements SB-9 - 31700	-	184
	<u><u>\$ 184</u></u>	<u><u>\$ 184</u></u>

All interfund balances are to be repaid within one year.

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**NOTE 5. Interfund Receivables, Payables, and Transfers (continued)**

Net operating transfers, made to close out funds, to supplement other funding sources, and to transfer cash for debt in the normal course of operations, were as follows:

**Primary Government:**

<b>Transfers Out</b>	<b>Transfers In</b>	<b>Amount</b>
Operational (General Fund) - 11000	Title I School Improvement - 24162	\$ 69,229
Operational (General Fund) - 11000	TANF - Full Day Kindergarten - 27136	1,513
Operational (General Fund) - 11000	Laws of NM 2005 - 27144	46,467
Operational (General Fund) - 11000	Reading Improvement Initiatives - 27152	2,704
Operational (General Fund) - 11000	K-Plus Initiative - 27159	1,577
Operational (General Fund) - 11000	Kindergarten Three Plus - 27166	68,512
Operational (General Fund) - 11000	City/County Grants - 29107	6,311
Operational (General Fund) - 11000	School Based Health Center - 29130	65,764
Operational (General Fund) - 11000	Debt Service Fund - 41000	2,768,901
Teacherage (General Fund) - 12000	Debt Service Fund - 41000	300,000
Bill and Melinda Gates Foundation - 26104	Operational (General Fund) - 11000	2,839
Center for the Ed and Study of Diverse Populations - 26147	Operational (General Fund) - 11000	181
Parents Reaching Out - 26174	Operational (General Fund) - 11000	260
SES After School Tutoring - 26202	Operational (General Fund) - 11000	990
Titile V Indian Health Care Improvement Act - 26209	Operational (General Fund) - 11000	2
Pathways Project UNM - 28162	Operational (General Fund) - 11000	219
Parents as Teachers - 28167	Operational (General Fund) - 11000	28,282
AP New Mexico Incentive Funding - 28168	Operational (General Fund) - 11000	142
Regional Quality Center - 28180	Operational (General Fund) - 11000	75,645
		<u>\$ 3,439,538</u>

**Component Unit:**

<b>Transfers Out</b>	<b>Transfers In</b>	<b>Amount</b>
Operational - 11000	Entitlement IDEA-B 24106	\$ 4,614

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**NOTE 6. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2015 follows. Land and construction in progress are not subject to depreciation.

**Primary Government:**

	Balance June 30, 2014	Adjustments	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:					
Land	\$ 11,149,840	\$ (133,744)	\$ -	\$ -	\$ 11,016,096
Construction in progress	544,768	133,744	15,222,771	148,307	15,752,976
Total capital assets not being depreciated	11,694,608	-	15,222,771	148,307	26,769,072
Capital assets being depreciated:					
Buildings and improvements	453,907,532	-	3,168,566	2,025	457,074,073
Furniture, fixtures, and equipment	25,519,518	-	1,372,364	1,402,647	25,489,235
Total capital assets being depreciated	479,427,050	-	4,540,930	1,404,672	482,563,308
Total capital assets	491,121,658	-	19,763,701	1,552,979	509,332,380
Less accumulated depreciation:					
Buildings and improvements	112,520,678	-	10,606,100	1,499	123,125,279
Furniture, fixtures and equipment	19,582,829	-	1,418,308	1,324,233	19,676,904
Total accumulated depreciation	132,103,507	-	12,024,408	1,325,732	142,802,183
Total capital assets net of depreciation	\$ 359,018,151	\$ -	\$ 7,739,293	\$ 227,247	\$ 366,530,197

Adjustment was made to Land and Construction in progress to correctly classify expenditures from prior year for rollforward purposes.

Depreciation expense for the year ended June 30, 2015 was charged to the following functions:

Instruction	\$ 10,791,166
Support services-students	232,234
Support services-instruction	96,248
Support services-general administration	119,584
Support services-school administration	3,400
Central services	166,782
Operations and maintenance of plant	37,776
Student transportation	520,054
Food services operations	57,164
	<u>\$ 12,024,408</u>

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**NOTE 6. Capital Assets (continued)**

**Component Unit:**

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets being depreciated:				
Buildings and improvements	\$ 187,941	\$ -		\$ 187,941
Furniture fixtures and equipment	26,427	-		26,427
Total capital assets	214,368	-	-	214,368
Less accumulated depreciation:				
Buildings and improvements	19,055	4,699	-	23,754
Furniture, fixtures and equipment	22,632	1,301	-	23,933
Total accumulated depreciation	41,687	6,000	-	47,687
Total capital assets net of depreciation	\$ 172,681	\$ (6,000)	\$ -	\$ 166,681

Depreciation expense for the year ended June 30, 2015 was charged to the instruction function in the amount of \$6,000.

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**NOTE 7. Long-term Debt**

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued with varying terms and varying amounts of principal maturing each year. All general obligation bonds as of June 30, 2015 are for governmental activities. All revenue bonds as of June 30, 2015 are for governmental activities.

Bonds outstanding at June 30, 2015, are comprised of the following:

	Series 3/3/2008	Series 1/6/2009	Series 5/3/2010	Series 11/12/2010
Original Issue:	\$ 5,500,000	\$ 6,000,000	\$ 4,750,000	\$ 8,200,000
Principal:	August 1	August 1	August 1	August 1
Interest:	February 1 August 1	February 1 August 1	February 1 August 1	February 1 August 1
Interest Rates:	3.45% - 4.00%	3.45% - 5.00%	1.33% - 4.35%	.836-3.77%
Maturity Date:	8/1/2021	8/1/2022	8/1/2023	8/1/2027
	Series 10/25/2011	Series 10/25/2011	Series 8/6/2013	Series 10/21/2014
Original Issue:	\$ 7,050,000	\$ 10,850,000	\$ 13,025,000	\$ 9,000,000
Principal:	August 1	August 1	August 1	August 1
Interest:	February 1 August 1	February 1 August 1	February 1 August 1	February 1 August 1
Interest Rates:	2.00% - 3.25%	2.00% - 3.00%	3.00%-5.00%	2.00%-4.00%
Maturity Date:	8/1/2027	8/1/2020	8/1/2028	8/1/2027
	Revenue Bond 3/16/2012			
Original Issue:	\$ 24,765,000			
Principal:	August 1			
Interest:	February 1 August 1			
Interest Rates:	0.80% - 3.05%			
Maturity Date:	8/1/2026			

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**NOTE 7. Long-term Debt**

The following is a summary of the long-term debt and the activity for the year June 30, 2015:

**Primary Government:**

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
General obligation bonds					
Series 3/3/2008	\$ 3,850,000	\$ -	\$ 300,000	\$ 3,550,000	\$ 250,000
General obligation bonds					
Series 1/6/2009	4,650,000	-	200,000	4,450,000	350,000
General obligation bonds					
Series 5/3/2010	2,740,000	-	265,000	2,475,000	200,000
General obligation bonds					
Series 11/12/10	6,410,000	-	975,000	5,435,000	250,000
General obligation bonds					
Series 10/25/2011	5,895,000	-	305,000	5,590,000	300,000
General obligation bonds					
Series 10/25/2011	7,170,000	-	1,355,000	5,815,000	940,000
General obligation bonds					
Series 8/6/2013	13,025,000	-	1,525,000	11,500,000	1,815,000
General obligation bonds					
Series 10/21/2014	-	9,000,000	-	9,000,000	2,125,000
Revenue bond					
Series 3/16/2012	21,350,000	-	1,755,000	19,595,000	1,765,000
	<u>65,090,000</u>	<u>9,000,000</u>	<u>6,680,000</u>	<u>67,410,000</u>	<u>7,995,000</u>
Compensated absences	341,831	536,960	359,773	519,018	359,773
	<u>\$ 65,431,831</u>	<u>\$ 9,536,960</u>	<u>\$ 7,039,773</u>	<u>\$ 67,929,018</u>	<u>\$ 8,354,773</u>

Compensated Absences – During the current year the District updated their policy regarding vacation, instead of employees earning 10 to 15 days of vacation per year depending on years of service, now all eligible employees receive 15 days a year of vacation. As well as the District has determined that annual leave “banked” by employees is payable upon termination, resignation or retirements (of up to 30 days) and must be listed with compensated absences. For these reasons the compensated absences increased \$177,187 from the prior year accrual. In prior years, the general fund was typically used to liquidate long-term liabilities.

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**NOTE 7. Long-term Debt (continued)**

The annual requirements to amortize the General Obligation Bonds as of June 30, 2015, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2016	\$ 6,230,000	\$ 1,549,006	\$ 7,779,006
2017	4,925,000	1,344,812	6,269,812
2018	4,755,000	1,172,532	5,927,532
2019	4,095,000	1,021,666	5,116,666
2020	3,625,000	896,089	4,521,089
2021-2025	16,120,000	2,589,749	18,709,749
2026-2030	8,065,000	406,169	8,471,169
	<u>\$ 47,815,000</u>	<u>\$ 8,980,023</u>	<u>\$ 56,795,023</u>

The annual requirements to amortize the revenue bonds outstanding as of June 30, 2015, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2016	\$ 1,765,000	\$ 403,901	\$ 2,168,901
2017	1,785,000	383,125	2,168,125
2018	1,805,000	358,161	2,163,161
2019	1,835,000	328,662	2,163,662
2020	1,865,000	294,418	2,159,418
2021-2025	8,730,000	799,119	9,529,119
2026-2030	1,810,000	55,262	1,865,262
	<u>\$ 19,595,000</u>	<u>\$ 2,622,648</u>	<u>\$ 22,217,648</u>

**Component Unit:**

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
Compensated absences	\$ 13,234	\$ 12,311	\$ 21,010	\$ 4,535	\$ 3,018
	<u>\$ 13,234</u>	<u>\$ 12,311</u>	<u>\$ 21,010</u>	<u>\$ 4,535</u>	<u>\$ 3,018</u>

Compensated Absences – Administrative employees of the Component Unit are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2015, compensated absences decreased \$8,699 from the prior year accrual. In prior years, the general fund was typically used to liquidate long-term liabilities.

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**NOTE 8. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Therefore, the District is a member of the New Mexico Public School Insurance Authority (NMPSIA). The Authority was created to provide comprehensive core insurance programs by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The District pays an annual premium to the NMPSIA based on claim experience and the status of the pool. The Risk Management Program includes Workers Compensation, General and Automobile Liability, Automobile Physical Damage, and Property and Crime coverage. Also included under the risk management program are Boiler, Machinery and Student Accident Insurance.

The NMPSIA provides coverage for up to a maximum of \$500,000,000 for each property damage claim with a \$15,000 deductible per occurrence with a maximum annual deductible of \$60,000. General liability coverage is afforded to all employees, volunteers and school board members and the limit is subject to the NMSA Tort Claims Act on a per occurrence basis. The automobile and property liability limit is subject to the provisions of the Tort Claims Act. The crime limit is \$250,000 per occurrence for Faithful Performance. A limit of \$250,000 applies to Depositor's Forgery, Credit Card Forgery, and Money Orders. A limit of \$100,000 applies to Money and Securities, which include a \$750 deductible.

In case the NMPSIA's assets are not sufficient to meet its liability claims, the agreement provides that subscribers, including the District, cannot be assessed additional premiums to cover the shortfall. No settlements exceeded insurance coverage for 2015.

**NOTE 9. Deficit Fund Balances and Budget Noncompliance Issues**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

A. Deficit fund balance of individual funds. The following funds reflected a deficit fund balance as of June 30, 2015:

**Primary Government:**

Johnson O'Malley - 25131	\$ 34,141
Save the Children - 26143	14,841
Pump up the Volume in Preschools - 26201	10,263
Kindergarten - Three Plus - 27166	924
After School Enrichment Program - 27168	21,348
2013 School Bus - 27178	441,408
Start Smart K-3 Plus Utah State University Study - 28191	<u>7,545</u>
Total	<u><u>\$ 530,470</u></u>

**Component Unit:**

Capital Improvements SB-9 - 31700	<u>\$ 184</u>
Total	<u><u>\$ 184</u></u>

B. Excess of expenditures over appropriations. The District and Charter School did not have any funds with excess of expenditures over appropriations for the year ended June 30, 2015.

C. In the budget, designated cash appropriations exceeded prior year available balances. The District and Charter School did not have any funds with designated cash appropriations in excess of prior year available balances for the year ended June 30, 2015.



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**NOTE 10. Pension Plan – Educational Retirement Board**

**General Information about the Pension Plan**

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

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at [www.nmerb.org](http://www.nmerb.org).

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

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

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

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

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

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**NOTE 10. Pension Plan – Educational Retirement Board (continued)**

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

**Contributions.** The contribution requirements of plan members and the District and the Charter School are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2015 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions to the pension plan from the District and the Charter School were \$9,437,099 and \$65,260, respectively, for the year ended June 30, 2015.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2014. At June 30, 2015, the District and Charter School reported a liability of \$137,629,661 and \$790,806, respectively, for its proportionate share of the net pension liability. The District's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2014. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2014, the District's proportion was 2.41213 percent which was a decrease of 0.15774 from its proportion measured as of June 30, 2013. At June 30, 2014, the Charter School's proportion was 0.01386 percent which was an increase of 0.00048 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District and the Charter School recognized pension expenses of \$6,976,435 and \$62,496, respectively. At the June 30, 2015, the District and the Charter School reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

**Primary Government:**

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ 2,050,205
Net difference between projected and actual earnings on pension plan investments	-	12,511,195
Changes in proportion and differences between District contributions and proportionate share of contribution	-	7,349,283
District's contributions subsequent to the measurement date	9,437,099	-
Total	<u>\$ 9,437,099</u>	<u>\$ 21,910,683</u>

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**NOTE 10. Pension Plan – Educational Retirement Board (continued)**

\$9,437,099 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date of June 30, 2014, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ (6,391,503)
2017	(6,391,503)
2018	(5,999,858)
2019	(3,127,819)
2020	-
Thereafter	-

**Component Unit:**

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ -	\$ 11,777
Net difference between projected and actual earnings on pension plan investments	-	71,868
Changes in proportion and differences between Charter School contributions and proportionate share of contribution	22,356	-
Charter School's contributions subsequent to the measurement date	<u>65,260</u>	<u>-</u>
Total	<u>\$ 87,616</u>	<u>\$ 83,645</u>

\$65,260 reported as deferred outflows of resources related to pensions resulting from Charter School contributions subsequent to the measurement date of June 30, 2014, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ (14,299)
2017	(14,299)
2018	(14,740)
2019	(17,951)
2020	-
Thereafter	-

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**NOTE 10. Pension Plan – Educational Retirement Board (continued)**

**Actuarial assumptions.** As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. Specifically, the liabilities measured as of June 30, 2014 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.7% thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012.

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2014 and 2013 for 30-year return assumptions are summarized in the following table:

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**NOTE 10. Pension Plan- Educational Retirement Board (Continued)**

Asset Class	2014	2013
	Long-Term Expected Real Rate of Return	Long-Term Expected Real Rate of Return
Cash	1.50%	0.75%
Treasuries	2.00%	1.00%
IG Corp Credit	3.50%	3.00%
MBS	2.25%	2.50%
Core Bonds	2.53%	2.04%
TIPS	2.50%	1.50%
High Yield Bonds	4.50%	5.00%
Bank Loans	5.00%	5.00%
Global Bonds (Unhedged)	1.25%	0.75%
Global Bonds (Hedged)	1.38%	0.93%
EMD External	5.00%	4.00%
EMD Local Currency	5.75%	5.00%
Large Cap Equities	6.25%	6.75%
Small/Mid Cap	6.25%	7.00%
International Equities (Unhedged)	7.25%	7.75%
International Equities (Hedged)	7.50%	8.00%
Emerging International Equities	9.50%	9.75%
Private Equity	8.75%	9.00%
Private Debt	8.00%	8.50%
Private Real Assets	7.75%	8.00%
Real Estate	6.25%	6.00%
Commodities	5.00%	5.00%
Hedge Funds Low Vol	5.50%	4.75%
Hedge Funds Mod Vol	5.50%	6.50%

**Discount rate:** A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2014 and June 30, 2013. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

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**NOTE 10. Pension Plan- Educational Retirement Board (Continued)**

***Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.*** The following table shows the sensitivity of the net pension liability to changes in the discount rate as of the fiscal year end 2014. In particular, the table presents the (employer's) net pension liability under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 187,260,995	\$ 137,629,661	\$ 96,174,177

**Component Unit:**

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Charter School's proportionate share of the net pension liability	\$ 1,075,985	\$ 790,806	\$ 552,455

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2014 and June 30, 2013 which are publicly available at [www.nmerb.org](http://www.nmerb.org).

**Payables to the pension plan.** The District remits the legally required employer and employee contributions on a monthly basis to ERB. The ERB requires that the contributions be remitted by the 15<sup>th</sup> day of the month following the month for which contributions are withheld. At June 30, 2015 the District owed the ERB \$3,496,270 for the contributions withheld in the month of June 2015.

**NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan**

***Plan Description.*** The District contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

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**NOTE 11. Post-Employment Benefits – State Retiree Health Care Plan (continued)**

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The District's and the Charter School's contribution to the RHCA for the years ended June 30, which equal the required contributions for each year:

	<u>District</u>	<u>Charter School</u>
June 30, 2015	\$ 1,362,228	\$ 9,390
June 30, 2014	1,333,657	5,456
June 30, 2013	1,386,182	7,353

**NOTE 12. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amount, if any, to be immaterial.

The District is involved in various claims and lawsuits arising in the normal course of business. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the District.

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**NOTE 13. Commitments**

The District's commitments as of June 30, 2015 are as follows:

<b>Project</b>	<b>District funding</b>	<b>District paid out as of 6/30/15</b>	<b>Balance remaining</b>
Del Norte Elementary (combination of Juan De Ocate and Washington	\$ 3,301,791	\$ -	\$ 3,301,791
Catherine A. Miller (formerly Churchrock)	2,661,623	2,181,383	480,241
Jefferson Elementary	3,216,470	390,300	2,826,170
Ramah Elementary	2,226,057	-	2,226,057
Thoreau Elementary design	355,697	-	355,697
Lincoln Elementary design	429,992	-	429,992
Gallup High School	570,248	397,676	172,572

A portion of the above construction projects in process are paid directly by Public School Capital Outlay Council.

**NOTE 14. Joint Powers Agreements**

**Cooperative Procurement Agreement**

Participants: McKinley County  
City of Gallup  
Gallup-McKinley County Public Schools  
Responsible party: All participants  
Description: To conduct cooperative procurement utilizing services of each entity.  
Begin date: May 2, 2002  
Ending date: Until notified  
Estimated amount of project: Unknown  
Amount contributed: None  
Audit responsibility: Each participant  
Fiscal agent: Not applicable

**Resolution of the Intergovernmental Relations Committee of the Navajo Nation Counsel**

Participants: Navajo Nation of Dine Education  
Gallup-McKinley County Public Schools  
Responsible party: Navajo Nation of Dine Education  
Description: To collaborate on and endorse a relevant curriculum that increases the awareness of students, teachers and employee to cultural diversity and provides opportunities for staff development to enhance that relationship.  
Beginning date: July 6, 2004  
Ending date: Until withdrawn  
Estimated amount of project: Unknown  
Amount contributed: None  
Audit responsibility: Navajo Nation of Dine Education  
Fiscal agent: Navajo Nation of Dine Education



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**NOTE 14. Joint Powers Agreements (continued)**

**JPA for Shared Use of Facilities**

Participants: City of Gallup  
Gallup-McKinley County Public Schools  
Responsible party: Each participant  
Description: To share both school district and city recreational, training, and educational facilities.  
Beginning date: 1977  
Ending date: Unknown  
Estimated amount of project: None  
Amount contributed: None  
Audit responsibility: Each participant  
Fiscal agent: Not Applicable

**Cooperative Agreement for the Paving and Drainage Improvements of the School District Parking Lot**

Participants: Gallup-McKinley County Public Schools  
New Mexico Department of Transportation  
Responsible party: Both  
Description: Construction/pavement rehabilitation/ reconstruction/ drainage improvements of School District Parking Lot  
Beginning date: September 3, 2014  
Ending date: Project completion (18 months)  
Estimated amount of project: \$49,651  
Amount contributed: \$12,413  
Audit responsibility: Department of Transportation  
Fiscal agent: Gallup-McKinley County Public Schools

**Memorandum of Understanding with Gallup Lions Club Operation KidSight**

Participants: Gallup-McKinley County Public Schools  
Gallup Lions Club Operation KidSight  
Responsible party: Both  
Description: Lions Club will provide free photo eye screening for children 3 to 6 years of age in NM  
Beginning date: October 23, 2014  
Ending date: Unknown  
Estimated amount of project: Unknown  
Amount contributed: None  
Audit responsibility: Both  
Fiscal agent: Gallup-McKinley County Public Schools

**Memorandum of Understanding with New Mexico Mathematics, Engineering, Science Achievement, Inc. (MESA)**

Participants: Gallup-McKinley County Public Schools  
MESA  
Responsible party: Both  
Description: Stipends to be provided to MESA advisor working with a minimum of 20 students.  
Beginning date: September 6, 2014  
Ending date: Unknown  
Estimated amount of project: Unknown  
Amount contributed: Unknown  
Audit responsibility: Both  
Fiscal agent: Gallup-McKinley County Public Schools

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**NOTE 14. Joint Powers Agreements (continued)**

**Memorandum of Understanding with Capacity Builders, Inc. – Tohatchi Born Learning Trail Project**

Participants: Gallup-McKinley County Public Schools  
Capacity Builders, Inc.  
Responsible party: Both  
Description: Providing youth aged 15 to 25 with a summer youth employment opportunity to work for competitive wages, improve their communities, and engage in lasting academic enrichment and positive youth development  
Beginning date: June 9, 2014  
Ending date: August 8, 2014  
Estimated amount of project: Unknown  
Amount contributed: Unknown  
Audit responsibility: Both  
Fiscal agent: Both

**Memorandum of Understanding for Web of Life Program**

Participants: Gallup-McKinley County Public Schools  
National Indian Youth Leadership Project, Inc.  
Responsible party: National Indian Youth Leadership Project, Inc.  
Description: Provide a positive, culturally and developmentally appropriate program, which includes experiential skill building and service learning.  
Beginning date: August 7, 2014  
Ending date: June 30, 2015  
Estimated amount of project: Unknown  
Amount contributed: Unknown  
Audit responsibility: Both  
Fiscal agent: National Indian Youth Leadership Project, Inc.

**Aquatics Center Operations**

Participants: City of Gallup  
Gallup-McKinley County Public Schools  
Responsible party: City of Gallup  
Description: To operate the Aquatics Center Swimming Facility  
Beginning date: April 4, 2004  
Ending date: Until withdrawn  
Estimated amount of project: \$8,250,000  
Amount contributed: \$2,250,000  
Audit responsibility: City of Gallup  
Fiscal agent: City of Gallup

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**NOTE 15. Subsequent Events**

The date to which events occurring after June 30, 2015, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is November 12, 2015 which is the date on which the financial statements were available to be issued.

The District contracted with a Food Service Management Company to run the District's food services program beginning in the 2015-2016 school year. Management worked with District staff, Union Representation and the Board of Education to provide an opportunity for any food service employee terminating employment with Gallup-McKinley County Schools to be employed with the District's Food Management Company to be paid out for sick leave that had been accumulated by the employee.

**NOTE 16. Concentrations**

The District depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the District is subject to changes in the specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

**NOTE 17. Net Position Restatement and Fund Balance Restatement**

The District has a prior period adjustment of (\$152,563,909) which was required for implementation of GASB Statement No. 68 and GASB Statement No. 71. The adjustment reflects a beginning net pension liability of (\$161,306,992) and a beginning of deferred outflow of resources- employer contributions subsequent to the measurement date of \$8,743,083.

The District has restated beginning equity in the general fund in the amount of \$66,411 for accounting adjustments in expenditure driven reimbursement basis funds that incorrectly maintained cash or negative cash. The general fund transferred cash to or from the following funds during fiscal year ending June 30, 2015:

	Transfer from General Fund	Transfer to General Fund
Partnership in Character Ed Pilot - 24129	\$ 1,889	\$ -
Reading First - 24167	14,370	-
Teacher Quality Improvement - 25214	17,058	-
Goals 2000 Parental Assistance - 25228	17,981	-
Substance Abuse and Mental Health Services - 25238	41,018	-
DOD - Education Activity - 25254	119,192	-
Bilingual Education Title VII - 25109	-	84,141
JTPA - 25117	-	178
General Ed. Projects "Star Schools" - 25137	-	45,556
Technology Challenge Grant USDE - 25207	-	11,739
Tobacco Use Prevention and Control Program - 25222	-	62
Native American Program - 25248	-	1,320
Impact Aid Construction - 25252	-	2,101
	<u>\$ 211,508</u>	<u>\$ 145,097</u>
Net transfer - General Fund	<u>\$ 66,411</u>	

The District has a total restatement of (\$152,630,320) for the Statement of Activities.

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**NOTE 17. Net Position Restatement and Fund Balance Restatement (continued)**

In addition, the District has a restatement fund balance between funds Bond Building Capital Projects Fund (31100) and Special Revenue Bond Capital Projects Fund (31110). Expenditures were inadvertently recorded in the Special Revenue Bond Capital Projects Fund (31110) instead of the Bond Building Capital Projects Fund (31100) in prior year in the amount of \$227,251.

The Charter School has a prior period adjustment of (\$789,599) which was required for implementation of GASB Statement No. 68 and GASB Statement No. 71. The adjustment reflects a beginning net pension liability of (\$839,822) and a beginning of deferred outflow of resources- employer contributions subsequent to the measurement date of \$50,223.

**NOTE 18. Restricted Net Position**

The government-wide statement of net position reports \$36,561,837 restricted net position, all of which is restricted by enabling legislation. For descriptions of the related restrictions for net position restricted for special revenue, debt service and capital projects, see pages 38 and 84-93.

**NOTE 19. Payroll Related Expenditures**

The District's expenditures are budgeted on a cash basis, with the exception of those expenditures related to payroll. Payroll expenditures are budgeted on the accrual basis and the beginning fund balance and current year actual expenditures are budgeted on the budgetary comparisons in those funds that have accrued payroll at year end have been adjusted to account for this requirement.

Primary Government:

Save the Children Special Revenue Fund – 26143	\$ 1,874
Teacher/School Leader Stipends Special Revenue Fund – 27122	488

**NOTE 20. Subsequent Pronouncements**

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

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

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

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The District and the Charter School expect this pronouncement to have a material effect on the financial statements.

**STATE OF NEW MEXICO**  
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**NOTE 20. Subsequent Pronouncements (continued)**

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

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

## APPENDIX C

### BOOK-ENTRY-ONLY SYSTEM

## The Book-Entry-Only System

Initially, DTC will be the securities depository for the Bonds. The Paying Agent/Registrar will register all Bonds in the name of Cede & Co. (DTC's partnership nominee) and provide DTC with one Bond for each maturity.

DTC provided the following information. Neither the Financial Advisor nor the District can vouch for its accuracy or completeness. For further information, please contact DTC or view its website at [www.dtc.org](http://www.dtc.org).

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New Mexico and New York Uniform Commercial Codes, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of security certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Purchases of the Bonds under the book-entry system may be made only through brokers and dealers who are, or act through, DTC Participants. Each DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's ownership interest in the Bonds. The ownership interest of each actual purchaser of a Bond (the "Beneficial Owner") will be recorded through the records of the DTC Participant or the Indirect Participant. Beneficial Owners are to receive a written confirmation of their purchase providing certain details of the Bonds acquired. Transfers of ownership interests in the Bonds will be accomplished only by book entries made by DTC and, in turn, by DTC Participants or Indirect Participants who act on behalf of the Beneficial Owners. Beneficial Owners of the Bonds will not receive nor have the right to receive physical delivery of the Bonds, and will not be or be considered to be registered owners under the Bond Resolution except as specifically provided in the Bond Resolution in the event the book-entry system is discontinued.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES IN THIS OFFICIAL STATEMENT TO THE REGISTERED OWNERS OF THE BONDS WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS.

The District and the Registrar may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purpose of payment of the principal of or interest or premium, if any, on the Bonds, selecting Bonds and portions thereof to be redeemed, giving any notice permitted or required to be given to registered owners under the Bond Resolution, register the transfer of Bonds, obtaining any consent or other action to be taken by registered owners and for all other purposes whatsoever, and will not be affected by any notice to the contrary. The District and the Registrar will not have any responsibility or obligation to any DTC Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any DTC Participant, Indirect Participant or other person not shown on the records of the Registrar as being a registered owner with respect to: the accuracy of any records maintained by DTC, any DTC Participant or Indirect Participant regarding ownership interests in the Bonds; the payment by DTC, any DTC Participant or Indirect Participant of any amount in respect of the principal of or interest or premium, if any, on the Bonds; the delivery to any DTC Participant, Indirect Participant or any Beneficial Owner of any notice that is permitted or required to be given to registered owners under the Bond Resolution; or any consent given or other action taken by DTC as a registered owner.

Neither DTC nor its nominee, Cede & Co., provides consents with respect to any security. Under its usual procedures, DTC mails an omnibus proxy to the issuer of the securities for which it is acting as securities depository as soon as possible after the establishment of a "record date" by the issuer for purposes of soliciting consents from the holders of such securities. The omnibus proxy assigns Cede & Co.'s voting rights to those DTC Participants having such securities credited to their accounts on such record date.

Principal of and interest on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the Bonds is the responsibility of the DTC Participants or the Indirect Participants. Upon receipt of any such payments, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners of the Bonds will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Registrar or the District, subject to any statutory and regulatory requirements then in effect.

As long as the DTC book-entry system is used for the Bonds, the Registrar will give any notice required to be given to registered owners of Bonds only to DTC or its nominee. Any failure of DTC to advise any DTC Participant, of any DTC Participant to notify any Indirect Participant, or of any DTC Participant or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of any action premised on such notice. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from

time to time. Beneficial Owners may desire to make arrangements with a DTC Participant or Indirect Participant so that all communications to DTC that affect such Beneficial Owners will be forwarded in writing by such DTC Participant or Indirect Participant.

NEITHER THE DISTRICT NOR THE REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS.

For every transfer and exchange of a beneficial ownership interest in the Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving reasonable notice to the District or the Registrar at any time. In addition, if the District determines that (i) DTC is unable to discharge its responsibilities with respect to the Bonds or (ii) continuation of the system of book-entry only transfers through DTC is not in the best interests of the Beneficial Owners of the Bonds or of the District, the District may thereupon terminate the services of DTC with respect to the Bonds. If for any such reason the system of book-entry transfers through DTC is discontinued, the District may within 90 days thereafter appoint a substitute securities depository that, in its opinion, is willing and able to undertake the functions of DTC upon reasonable and customary terms. If a successor is not approved, Bond certificates will be delivered as described in the Bond Resolution in fully registered form in denominations of \$5,000 or any integral multiple thereof in the names of the Beneficial Owners, Indirect Participants or DTC Participants.

In the event the book-entry system is discontinued, the persons to whom Bond certificates are registered will be treated as registered owners for all purposes of the Bond Resolution, including the giving to the District or the Registrar of any notice, consent, request or demand pursuant to the Bond Resolution for any purpose whatsoever. In such event, the Bonds will be transferred to such registered owners, interest on the Bonds will be payable by check of the Paying Agent, as paying agent, mailed to such registered owners, and the principal and redemption price of all Bonds will be payable at the principal corporate trust office of the Paying Agent.

The foregoing material concerning DTC and DTC's book-entry system is based on information furnished by DTC. No representation is made by the District or the Underwriter as to the accuracy or completeness of such information.

#### **Limited Book-Entry Responsibilities**

While a book-entry-only system is used for the Bonds, the Paying Agent/Registrar will send redemption and other notices only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any notice and its content or effect will not affect the validity of sufficiency of the proceedings relating to the Bond redemption or any other action based on the notice.

The District and the Financial Advisor have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership of interests in the Bonds.

The District and the Financial Advisor cannot and do not give any assurances that DTC will distribute payments to DTC Participants or that DTC Participants or others will distribute payments with respect to the Bonds received by DTC or its nominees as the holder or any redemption notices or other notices to the beneficial holders, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.



## APPENDIX D

### BOND COUNSEL OPINION

[FORM OF BOND]

April \_\_\_, 2016

Board of Education  
Gallup-McKinley County School District No. 1  
Gallup, New Mexico

***Re: Gallup-McKinley County School District No. 1  
General Obligation School Building Bonds, Series 2016***

Ladies and Gentlemen:

We have acted as bond counsel to the Gallup-McKinley County School District No. 1 (the "District") in connection with the issuance of its \$7,750,000 General Obligation School Building Bonds, Series 2016 (the "Bonds"), dated their date of issuance, with interest payable on February 1, 2017, and semi-annually thereafter on each August 1 and February 1, until maturity, and being bonds in registered form maturing in August in the years 2017 through 2028, inclusive.

We have examined the transcript of proceedings (the "Transcript") relating to the issuance of the Bonds and the law under authority of which the Bonds are issued. Based on our examination, we are of the opinion that, under the law existing on the date of this opinion, subject to the provisions of federal bankruptcy law and other laws affecting creditors' rights and further subject to exercise of judicial discretion in accordance with general principles of equity:

1. The Bonds constitute valid and binding general obligations of the District and are to be paid from the proceeds of the levy of ad valorem taxes on all taxable property within the District without limitation as to rate or amount.

2. Assuming continuing compliance by the District with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and with the covenants contained in the Transcript regarding the use, expenditure and investment of Bond proceeds, interest on the Bonds is excludable from the gross income of the owners of the Bonds for purposes of federal income taxation. Interest on the Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. Failure of the District to comply with its covenants and with the requirements of the Code may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issuance.

3. Interest on the Bonds is excludable from net income for purposes of the tax imposed on individuals, estate and trusts under the New Mexico Income Tax Act and for purposes of the tax imposed on corporations under the New Mexico Corporate Income and Franchise Tax Act.

Other than as described herein, we have not addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Bonds.

The opinions expressed herein represent our legal judgment based upon existing legislation as of the date of issuance and delivery of the Bonds that we deem relevant to render such opinions and are not a guarantee of a result, and we express no opinion as of any date subsequent thereto or with respect to any pending legislation.

We are passing upon only those matters set forth in this opinion and are not passing upon the accuracy or completeness of any statement made in connection with any sale of the Bonds.

Respectfully Submitted,

## APPENDIX E

### CONTINUING DISCLOSURE UNDERTAKING

## **CONTINUING DISCLOSURE UNDERTAKING**

Section 1. Recitals. This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by the Gallup-McKinley County School District No. 1, McKinley County, New Mexico (the "District"), in connection with the issuance of the Gallup-McKinley County School District No. 1, McKinley County, New Mexico, General Obligation School Building Bonds, Series 2016 (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the District adopted on March 7, 2016 (the "Resolution"). Pursuant to the Resolution to allow the underwriters of the Bonds to comply with the Rule (defined below), the District is required to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds (the "Owners"). This Undertaking is intended to satisfy the requirements of the Rule.

### Section 2. Definitions.

(a) "Annual Financial Information" means the financial information (which will be based on financial statements prepared in accordance with generally accepted accounting principles, as in effect from time to time ("GAAP"), for governmental units as prescribed by the Governmental Accounting Standards Board ("GASB")) and operating data with respect to the District, delivered at least annually pursuant to Sections 3(a) and 3(b) of this Undertaking, consisting of information of the type set forth under the captions "DEBT AND OTHER FINANCIAL OBLIGATIONS," "TAX BASE," "THE DISTRICT – Student Enrollment," "FINANCES OF THE EDUCATIONAL PROGRAM-State Equalization Guarantee," "Statement of Net Assets, Statement of Activities, Balance Sheet – General Fund, Statement of Revenues & Expenditures & Changes in Fund Balances – General Fund." in the Official Statement. Annual Financial Information will include Audited Financial Statements if available.

(b) "Audited Financial Statements" means the District's annual financial statements prepared in accordance with generally accepted accounting principles, as in effect from time to time ("GAAP"), for governmental units as prescribed by the Governmental Accounting Standards Board ("GASB"), which financial statements have been audited as may then be required or permitted by the laws of the State.

(c) "EMMA" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System located on its website at [emma.msrb.org](http://emma.msrb.org).

(d) "Event Information" means the information delivered pursuant to Section 3(d).

(e) "MSRB" means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314, phone (703) 797-6600, fax (703) 797-6708.

(f) "Official Statement" means the Official Statement dated March 7, 2016, delivered in connection with the original issue and sale of the Bonds.

(g) "Report Date" means March 31 of each year, beginning in 2017.

(h) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 C.F.R. Part 240, § 240.15c2-12), as the same may be amended from time to time.

(i) "SEC" means the Securities and Exchange Commission.

(j) "State" means the State of New Mexico.

Section 3. Provision of Annual Financial Information and Reporting of Event Information.

(a) The District, or its designated agent, will provide to EMMA the Annual Financial Information for the fiscal year ending on June 30 in the year preceding the Report Date while the Bonds are outstanding.

(b) If Audited Financial Statements are not provided as a part of the Annual Financial Information, the District, or its designated agent, will provide unaudited financial statements, if available, as part of the Annual Financial Information. In such cases, unaudited financial statements will be provided when available and Audited Financial Statements will be provided to EMMA when available.

(c) The District, or its designated agent, may provide Annual Financial Information by specific reference to other documents, including information reports and official statements relating to other debt issues of the District, which have been submitted to the Repository or filed with the SEC; provided, however, that if the document so referenced is a "final official statement" within the meaning of the Rule, such final official statement must also be available from the MSRB.

(d) The District, or its designated agent, will provide, to EMMA, notice of any of the following events with respect to the Bonds in a timely manner not in excess of ten (10) business days after the occurrence of the event:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) modifications to rights of security holders, if material;

(viii) bond calls, if material, or tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities, if material within the meaning of the federal securities law;

(xi) rating changes;

(xii) failure to provide event filing information as required;

(xiii) tender offer/secondary market purchases;

(xiv) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xv) bankruptcy, insolvency, receivership or a similar event with respect to the District or an obligated person;

(xvi) appointment of a successor or additional trustee, or a change of name of a trustee, if material.

(e) The District, or its designated agent, will provide, in a timely manner not in excess of ten (10) business days after the occurrence of the event, to EMMA, notice of any: (i) failure of the District to timely provide the Annual Financial Information, including unaudited and Audit Financial Statements, as specified in Sections 3(a) and 3(b); (ii) changes in its fiscal year-end; and (iii) amendment of this Undertaking.

Section 4. Method of Transmission. The District, or its designated agent, will employ such methods of electronic or physical information transmission as are requested or recommended from time to time by the Repository, the MSRB or the SEC.





Section 5. Enforcement. The obligations of the District under this Undertaking are for the benefit of the Owners. Each Owner is authorized to take action to seek specific performance by court order to compel the District to comply with its obligations under this Undertaking, which action will be the exclusive remedy available to it or any other Owner. The District's breach of its obligations under this Undertaking will not constitute an event of default under the Resolution, and none of the rights and remedies provided by such Resolution will be available to the Owners with respect to such a breach.

Section 6. Term. The District's obligations under this Undertaking will be in effect from and after the issuance and delivery of the Bonds and will extend to the earliest of (i) the date all principal and interest on the Bonds has been paid or legally defeased pursuant to the terms of the Resolution; (ii) the date on which the District is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this Undertaking are determined to be invalid or unenforceable by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

Section 7. Amendments. The District may amend this Undertaking from time to time, without the consent of any Owner, upon the District's receipt of an opinion of independent counsel experienced in federal securities laws to the effect that such amendment:

(a) is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the District;

(b) this Undertaking, as amended, would have complied with the Rule at the time of the initial issue and sale of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and

(c) the amendment does not materially impair the interests of the Owners.

Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information and Audited Financial Statements for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Beneficiaries. This Undertaking binds and inures to the sole benefit of the District and the Owners and creates no rights in any other person or entity.

Section 9. Subject to Appropriation. This Undertaking shall be subject to annual appropriation by the District's Board of Education and shall not be construed as a general obligation of the District.

Section 10. Governing Law. This Undertaking is governed by and is to be construed in accordance with the law of the State.

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Date: April 21, 2016

BOARD OF EDUCATION OF THE  
GALLUP-MCKINLEY COUNTY  
SCHOOL DISTRICT NO. 1

By \_\_\_\_\_  
President

[SEAL]

ATTEST:

\_\_\_\_\_  
Secretary

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