



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

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

June 30, 2008 and 2007

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico
School For The Deaf

BOARD OF REGENTS

June 30, 2008

Mrs. Shirley Hooper-Garcia	President
Ms. Sue Petrov	Vice-President
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Ms. Sue Petrov	Member
Ms. Sally Malave	Counsel

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Mr. Mark Apodaca	Director of Finance
Ms. Rosemary Gallego	Assistant Superintendent
Mr. Roddy Cabbage	Director of Student Life



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the business-type activities of the New Mexico School for the Deaf (the School or NMSD) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. We have also audited the budgetary comparison statements listed as schedules 1, 2, 3, and 4 presented as supplementary information in the accompanying financial statements as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and with 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The audit of capital assets-land during the year revealed that certain land held by the School was not recorded on the books and was part of larger land holdings not previously recorded. All historical cost or equivalent records needed to determine an appropriate amount, if any, to record for each property were not available during our audit. Accordingly, the reported values of capital assets in these financial statements are incomplete for land holdings that may be capitalized as discussed in Note L to the financial statements.

The financial statements of the New Mexico School for the Deaf are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of its business-type activities that are attributable to the transactions of the New Mexico School for the Deaf. They do not purport to, and do not, present fairly the financial position of The State of New Mexico as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the adjustment needed to record all land assets for the School referred to in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the School as of June 30, 2008 and 2007 and the respective changes in the financial position and cash flows, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparisons referred to above present fairly, in all material respects, the respective budgetary comparisons of the School for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

As described in Note M1, the School adopted a new accounting policy for bond revenue for 2008 and restated its 2007 financial statements to conform to the policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2008 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 9 are not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Mexico School for the Deaf's basic financial statements and the budgetary comparisons. The accompanying schedules of cash and investments, pledged collateral requirements, bonds, appropriations and joint powers agreements are presented for purpose of additional analysis as required by the New Mexico Public Education Department, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 3, 2008

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

June 30, 2008

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

FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets indicate the School's net assets and how they have changed. The School's financial position is measured by its net assets – the difference between assets and liabilities. Over time, the School's net assets increase and decrease indicating whether its financial position is improving or deteriorating. This Statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with accounting methods used by private sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or disbursed.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The New Mexico School for the Deaf ended the fiscal year June 30, 2008 with total assets of \$27,748,474 and total liabilities of \$759,878. Net assets were \$26,988,596, an increase of 14.1% from the prior year. Total assets increased by \$3,360,917 or 13.8% and liabilities increased by \$33,311 or 4.6% from the prior year. Due to the increase in total assets and increase in total liabilities and bond revenues received, the New Mexico School for the Deaf's net assets increased by \$3,327,606 or 14.1%.

The current ratio, which is used to measure the ability of the School to pay its short-term debts, increased from 11.71 in 2007 to 14.19 in 2008, an 8.8% increase. The increase was due to an increase in total current assets.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues for 2008 decreased by 24.9% over prior year. This was caused by a decrease of \$152,697 or 41.5% in federal grants and contracts. In addition, total operating expenses increased by \$1,982,269 or 15.15% during the same period. A significant increase came from the operation and maintenance of the plant. Before non-operating revenues, net operating loss was \$(14,404,998), an 18% increase over the previous year.

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

June 30, 2008

FINANCIAL HIGHLIGHTS – CONTINUED

During fiscal year 2008, NMSD received \$10,086,766 from the Land and Permanent Fund and \$4,314,220 from State Appropriations. In addition to the Land and Permanent Fund and State Appropriations, the School received \$2,995,780 in bond revenue, and \$316,438 in investment income and \$19,400 from the sale of disposal of capital assets. The total non-operating revenues of \$17,732,604 which was greater than the \$(14,404,998) in operating loss caused the school's net assets to increase by \$3,327,606.

Capital Assets

Construction of the new Hester Hall, which houses preschool and elementary school children, was completed in August 2008. Also during fiscal year 2008, an electricity utility upgrade is in process throughout the campus. The \$1.6 million project was an urgent upgrade of electric infrastructure so reliable power for each of the school's buildings will be provided.

Cash and Investments

NMSD ended the fiscal year with a cash balance of \$1,756,222. Investments with the Local Government Investment pool and certificates of deposits ended at \$6.2 million, up 4.2% from the previous fiscal year. Approximately 95 percent of the investment funds are under the State Treasurer's Office Local Government Investment Pool which has no unit shares.

Assets, Liabilities and Net Assets

The following summarizes the NMSD's assets, liabilities and net assets as of June 30, 2008 and 2007:

ASSETS	<u>2008</u>	(Restated) <u>2007</u>
Current assets	\$ 9,043,624	\$ 7,057,773
Non-current assets	<u>18,704,850</u>	<u>17,329,784</u>
Total assets	<u>\$ 27,748,474</u>	<u>\$ 24,387,557</u>
LIABILITIES		
Current liabilities	\$ 637,203	\$ 602,662
Non-current liabilities	<u>122,675</u>	<u>123,905</u>
Total liabilities	<u>\$ 759,878</u>	<u>\$ 726,567</u>

State of New Mexico
School For The Deaf

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

June 30, 2008

FINANCIAL HIGHLIGHTS – CONTINUED

NET ASSETS

	2008	(Restated) 2007
Invested in capital assets	\$ 18,241,533	\$ 17,103,450
Restricted for capital assets	-	-
Restricted student aid and other program	526,238	305,759
Unrestricted	8,220,825	6,251,781
Total net assets	\$ 26,988,596	\$ 23,660,990

ANALYSIS OF NET ASSETS

Assets may serve as an indicator of the school's financial position. Overall, NMSD continues to have a strong standing in net assets.

At June 30, 2008, total assets increased 13.8% from the previous fiscal year. Total liabilities increased only by \$33,311 or 4.6%. NMSD continues to have strong total assets.

Total assets exceed total liabilities by \$26,988,596. About 67.6% of net assets reflect its investment in Capital Assets. NMSD uses these Capital Assets to provide educational and other services to deaf and hard of hearing students. Therefore, these assets are not available for future spending.

An additional amount of \$526,238 of the School's net assets is subject to external restrictions on how it may be used. The remaining balance, \$8,220,825, may be used at the Board of Regent's discretion to meet the School's ongoing educational and operational needs.

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following summarizes the School's revenues, expenses, and changes in net assets for the years ended June 30, 2008 and 2007:

	2008	(Restated) 2007
Operating revenues	\$ 659,622	\$ 878,762
Operating expenses	(15,064,620)	(13,082,351)
Operating loss	(14,404,998)	(12,203,589)
Non-operating revenues	14,736,824	12,572,765
Capital appropriations	2,995,780	3,728,044
Increase in net assets	\$ 3,327,606	\$ 4,097,220

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

June 30, 2008

ANALYSIS OF CHANGES IN NET ASSETS

During fiscal year 2007, the School received appropriations for capital projects in the amount of \$12,500,000. There were no appropriations for fiscal year 2008. For fiscal year 2008, there was an increase in the school's net assets by \$3,327,606. Net assets will continue to increase as capital project funding is utilized.

OPERATING REVENUES

NMSD had operating revenues of \$659,634 for the fiscal year ended June 30, 2008 down 25 percent from fiscal year 2007. The reason for the decrease was a drop in federal grants and contracts by 42 percent. The remaining revenues are non-operating which include the land and permanent fund, state appropriations, and other revenue.

OPERATING EXPENSES

The following analysis summarizes the School's operating expenses of \$15,064,620 for the fiscal year ended June 30, 2008. There was a 19.7 percent increase from June 30, 2007. Operation and maintenance of plant increased by 67.6 percent from fiscal year 2007.

	<u>2008</u>	(Restated) <u>2007</u>
Operation and maintenance of plant	\$ 3,191,137	\$ 2,260,371
Academic support	3,194,053	2,784,759
Instruction	2,421,203	2,273,776
Student services	2,260,968	2,127,184
Institutional support	1,861,566	1,725,925
Outside contracts and grants	1,215,702	1,030,933
Depreciation	<u>919,991</u>	<u>879,403</u>
Total operating expenses	<u>\$ 15,064,620</u>	<u>\$ 13,082,351</u>

State of New Mexico
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2008

NON-OPERATING REVENUES AND EXPENSES

The following analysis summarizes the School's Non-Operating Revenues of \$17,732,604 for the fiscal year ended June 30, 2008. Significant increases include an increase in land and permanent fund income and state appropriations by 7 percent and 57 percent respectively.

	2008	(Restated) 2007
Land and permanent fund income	\$ 10,086,766	\$ 9,457,975
State appropriations	4,314,220	2,740,702
Investment income	316,438	374,088
Gain on disposal of capital assets	19,400	-
Other non-operating revenue	2,995,780	3,728,044
Total non-operating revenue and expense	\$ 17,732,604	\$ 16,300,809

CAPITAL ASSETS

At June 30, 2008, NMSD had invested \$31,657,837 in capital assets, \$18,241,533 net of accumulated depreciation. Depreciation charges for the year totaled \$919,991. The following analysis summarizes the School's capital assets, net of accumulated depreciation, as of June 30, 2008 and 2007:

	2008	(Restated) 2007
Buildings	\$ 15,585,071	\$ 10,222,070
Construction in progress	1,278,865	5,814,448
Vehicles	421,037	155,287
Land and improvements	396,866	396,866
Equipment and furniture	275,705	253,823
Art	209,550	209,550
Computer equipment	74,439	51,406
Total capital assets – net	\$ 18,241,533	\$ 17,103,450

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

June 30, 2008

CAPITAL ASSETS – CONTINUED

During fiscal year 2008, NMSD purchased a new bus and several cars. They replaced several older vehicles and a bus which had high mileage and were fully depreciated. Due to the completion of Hester Hall, the cost of buildings increased 55 percent from the previous fiscal year. In addition, equipment and furniture, and computer equipment increased by 8 percent and 45 percent, respectively. Because of the purchase of new vehicles and building activity, capital assets increased by 6.6 percent over fiscal year 2007.

BUDGET ANALYSIS

During fiscal year 2008, only one budget adjustment request (BAR) was made. Under Instruction and General (I&G), there was a reduction of \$299,452. The transfer went to Renewals and Replacements. During the last quarter of fiscal year 2008, an analysis showed that fringe benefits under I&G would turn out to be much lower than what was originally budgeted. Certain budget revenue numbers were much higher than actual for capital projects due to the anticipation that the projects would be in construction during the year. All other budget outcomes were as expected.

ECONOMIC OUTLOOK

NMSD's economic outlook is closely related to its role as the only school for the deaf and hard of hearing in the state of New Mexico. It is largely dependent upon ongoing financial support from the state government and the land and permanent fund income. Since the end of the fiscal year June 30, 2008, the economy has been unpredictable due to the declining price of oil which affects the school's land and permanent fund. In addition, the school's funds within the Local Government Investment Pool are being affected due to the volatility in stock market prices. The NMSD's business office will continue to monitor the economic activity on an ongoing basis.

State of New Mexico
School for the Deaf

STATEMENTS OF NET ASSETS

June 30,

ASSETS

	<u>2008</u>	<u>(Restated) 2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,316,905	\$ 73,095
Short-term investments	6,213,410	5,955,330
Accounts receivable, net of allowance for uncollectible amounts of \$11,075 for 2008 and 2007	1,412,549	941,538
Inventories	<u>100,760</u>	<u>87,810</u>
Total current assets	9,043,624	7,057,773
NONCURRENT ASSETS		
Restricted cash and cash equivalents	439,317	226,334
Deposits held for escrow	24,000	-
Capital assets, net	<u>18,241,533</u>	<u>17,103,450</u>
Total noncurrent assets	<u>18,704,850</u>	<u>17,329,784</u>
Total assets	<u>\$ 27,748,474</u>	<u>\$ 24,387,557</u>

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

LIABILITIES AND NET ASSETS

	2008	(Restated) 2007
	<u>2008</u>	<u>(Restated) 2007</u>
CURRENT LIABILITIES		
Accounts payable	\$ 362,480	\$ 383,481
Deferred income	100,943	56,713
Accrued compensated absences - current portion	125,864	113,638
Payroll taxes and fringe benefits - accrued and withheld	<u>47,916</u>	<u>48,830</u>
Total current liabilities	637,203	602,662
NONCURRENT LIABILITIES		
Accrued compensated absences	38,383	52,687
Deposits from students	<u>84,292</u>	<u>71,218</u>
Total noncurrent liabilities	<u>122,675</u>	<u>123,905</u>
Total liabilities	759,878	726,567
NET ASSETS		
Invested in capital assets	18,241,533	17,103,450
Restricted - expendable for:		
Other programs	439,317	226,334
Scholarships	64,897	57,401
Special events	22,024	22,024
Unrestricted	<u>8,220,825</u>	<u>6,251,781</u>
Total net assets	<u>26,988,596</u>	<u>23,660,990</u>
Total liabilities and net assets	<u>\$ 27,748,474</u>	<u>\$ 24,387,557</u>

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

State of New Mexico
School for the Deaf

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended June 30,

	2008	(Restated) 2007
OPERATING REVENUES		
Federal grants and contracts	\$ 215,153	\$ 367,850
Joint power agreements	121,280	132,580
Other operating revenue	<u>323,189</u>	<u>378,332</u>
 Total operating revenues	 659,622	 878,762
 OPERATING EXPENSES		
Operation and maintenance of plant	3,191,137	2,260,371
Academic support	3,194,053	2,784,759
Instruction	2,421,203	2,273,776
Student services	2,260,968	2,127,184
Institutional support	1,861,566	1,725,925
Outside contracts and grants	1,215,702	1,030,933
Depreciation	<u>919,991</u>	<u>879,403</u>
 Total operating expenses	 <u>15,064,620</u>	 <u>13,082,351</u>
 Net operating loss	 (14,404,998)	 (12,203,589)
 NON-OPERATING REVENUES (EXPENSES)		
Land and permanent fund income	10,086,766	9,457,975
State appropriations	4,314,220	2,740,702
Investment income	316,438	374,088
Gain on disposal of capital assets	19,400	-
Bond proceeds appropriations	<u>2,995,780</u>	<u>3,728,044</u>
 Non-operating revenues	 <u>17,732,604</u>	 <u>16,300,809</u>
 Changes in net assets	 3,327,606	 4,097,220
 NET ASSETS		
Beginning of year, as previously reported	23,660,990	25,611,816
Restatements		
Capital assets write-off	-	(85,568)
Bond restatement	<u>-</u>	<u>(5,962,478)</u>
 Beginning net assets, as restated	 <u>-</u>	 <u>19,563,770</u>
 Ending net assets	 <u>\$ 26,988,596</u>	 <u>\$ 23,660,990</u>

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

State of New Mexico
School for the Deaf

STATEMENT OF CASH FLOWS

Years ended June 30,

	2008	(Restated) 2007
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts received	\$ 380,663	\$ 494,323
Payments to suppliers	(3,859,640)	(2,611,230)
Payments to employees and for employee benefits	(10,133,873)	(9,369,956)
Other revenues	(147,822)	295,855
	<u>(13,760,672)</u>	<u>(11,191,008)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	4,314,220	2,740,702
Land and permanent fund income	9,911,781	9,413,709
	<u>14,226,001</u>	<u>12,154,411</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital bond drawdowns	2,995,780	3,728,044
Purchases, construction, and/or renovation of capital assets	(2,058,074)	(5,133,084)
Gain on sale of capital assets	19,400	-
	<u>957,106</u>	<u>(1,405,040)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	316,438	374,088
Purchase of investments	(282,080)	(399,208)
	<u>34,358</u>	<u>(25,120)</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS		
	1,456,793	(466,757)
Cash and restricted cash and cash equivalents		
- beginning of year	<u>299,429</u>	<u>766,186</u>
Cash and restricted cash and cash equivalents		
- end of year	<u>\$ 1,756,222</u>	<u>\$ 299,429</u>

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

State of New Mexico
School for the Deaf

STATEMENT OF CASH FLOWS - CONTINUED

Years ended June 30, 2008 and 2007

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

	<u>2008</u>	<u>2007</u>
Operating loss	\$ (14,404,998)	\$ (12,203,589)
Adjustments to reconcile operating loss to net cash (used in) operating activities:		
Depreciation expense	919,991	879,403
Changes in assets and liabilities:		
Operating accounts receivable	(296,026)	(82,477)
Inventory	(12,950)	(17,786)
Accounts payable	(21,001)	219,209
Accrued liabilities and compensated absences	10,082	20,339
Deferred income	<u>44,230</u>	<u>(6,107)</u>
Net cash (used in) operating activities	<u>\$ (13,760,672)</u>	<u>\$ (11,191,008)</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A – ORGANIZATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement 14, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government".

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

2. Basis of Presentation and Accounting

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

For financial reporting purposes, under GASB 34, GASB 35 and State Audit Rule, the School is considered a special-purpose government engaged only in business-type activities. Accordingly, the School's primary institution financial statements have been presented in a single column using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation and Accounting - Continued

The School engages in federal grant programs commonly referred to as “reimbursement type” programs. These grant programs require that the recipient (the School) must incur allowable costs as defined by the grant agreement in order to draw down funds against the particular grant. This is the principal eligibility requirement for the recognition of the revenue. Upon incurring an allowable cost, the School simultaneously recognizes a receivable and revenue in the amount of the expenditures incurred. All other eligibility requirements or grants, as applicable must also be satisfied.

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

The School has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB pronouncement conflicts with GASB guidance. The School has elected to not apply FASB pronouncements issued after the applicable date.

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

3. Cash and Investments

Cash and cash equivalents consist of cash on hand and current investments, which are defined as investments that are readily convertible to cash or reach their original maturity date within three months. Cash restricted by grants, Joint Powers Agreements and collected for auxiliary projects is included in cash and cash equivalents. The School accounts for its investments at fair market value in accordance with GASB Statement No. 31, *Certain Investments and External Investment Pools*.

4. Accounts Receivable

Accounts receivable includes services provided to students, faculty, and staff and amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures. Accounts receivable are recorded net of estimated uncollectible amounts.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Inventories

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

6. Capital Assets

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

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

7. Annual and Sick Leave Policies

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

8. Net Assets

The School's net assets are classified as follows:

Invested in capital assets: This represents the School's capital assets less depreciation, net of any outstanding debt obligations related to those capital assets. Capital assets are defined as tangible or intangible assets that are used in operations and have a useful life beyond a single reporting period. The School had no debt related to capital assets for 2008 and 2007.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets – Continued

Restricted net assets – expendable: Restricted expendable net assets include resources which the School is obligated to spend in accordance with restrictions imposed by external third parties. Restrictions imposed on asset use can be imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation, which includes a legally enforceable requirement that the resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party to use resources created by enabling legislation only for purposes specified by the legislation. The amount of net assets restricted by enabling legislation and the amount of restricted net assets from state sources are both \$0 at June 30, 2008 and 2007.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type assets for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. There are no nonexpendable restricted net assets at June 30, 2008.

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

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

9. Income Taxes

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Classification of Revenues

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

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

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

11. Classification of Expenses

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Budgetary Process

Operating budgets are submitted for approval by the Board of Regents, the New Mexico Higher Education Department (HED), and the New Mexico Department of Finance and Administration-State Budget Division (DFA). Similarly, budget adjustment requests are submitted to and approved by the Board of Regents, then forwarded to the HED and DFA. These state-level agencies develop consolidated funding recommendations for all higher education institutions which are considered for appropriation during the annual legislative sessions. If total expenditures by branch are expected to exceed the approved budget, the School is required to submit a Board of Regents approved Budget Adjustment Request to the HED which is subsequently forwarded to the DFA. The legal level of budgetary control is at functional category levels as defined for higher education entities.

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

13. Appropriations

In general, unexpended state appropriations to the School do not revert at the end of each fiscal year. (None of the current appropriations received are subject to reversion. NMSA 1978 6-4-2.) The School received an annual non-reverting State General Fund appropriation of approximately \$3,156,000 for fiscal year 2008, Laws 2007, Chapter 28, Section 4. The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2009. The 2007 appropriation of \$2,740,702 was fully spent during the prior year.

During fiscal year 2008, the School also received three special appropriations for \$439,800 (Laws 2007, Chapter 28, Section 8) for compensation increases, \$443,420 (Laws 2007, Chapter 28, Section 5) for repairs and maintenance, and \$275,000 (SB 0611, Section 44) for statewide outreach services. Any unexpended amounts for special appropriations revert at June 30, 2008. The School has no unexpended amounts relating to the special appropriations.

14. Permanent Land Income

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Other Accrued Liabilities

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

16. Use of Estimates

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

NOTE C – CASH AND INVESTMENTS

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

Deposits (cash and certificates of deposits) are carried at cost, which approximates market value. Bank deposits at June 30, 2008, (book balances) were \$1,756,222 and bank balances were \$3,177,124 of which \$3,450,085 are fully insured or collateralized with securities held by the bank's agent pledged to the School. At June 30, 2008, there were no bank deposits insured or collateralized. See also Schedule 5.

For 2008:	Depository Account	Bank Balance
Insured		\$ 202,000
Collateralized		
Collateral held by pledging bank's trust department in the School's name - par value		3,348,085
Uninsured and uncollateralized		-
 Total deposits		 \$ 3,550,085

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE C – CASH AND INVESTMENTS – CONTINUED

Disclosure

Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School does not have a deposit policy. As of June 30, 2008, \$- of the School's bank balance of \$3,177,124 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u> -</u>
Total	\$ <u><u> -</u></u>

The remaining balance of \$5,932,068 in the local government investment pool is valued by the State Treasurer. The School has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*.

The investment in the State Treasurer's investment pool is valued at fair value based on quoted market prices as of the valuation date. The State Treasurer Local Government Investment Pool (LGIP) is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the funds were invested. Participation in the local government investment pool is voluntary. The School has no control over the State Treasurer's investment pools and provides the following disclosure provided by the State Treasurer's Office concerning the School's investment in the *New MexiGROW* LGIP:

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE C – CASH AND INVESTMENTS – CONTINUED

June 30, 2008			
<i>New MexiGROW</i> LGIP	AAA _m rated	\$5,932,068	46 day WAM

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land and permanent fund	\$ 930,693	\$ 755,708
Federal funding sources	163,680	139,901
Other receivables	<u>329,251</u>	<u>57,004</u>
Total receivables	1,423,624	952,613
Allowance for doubtful accounts	<u>(11,075)</u>	<u>(11,075)</u>
Net receivables	<u>\$ 1,412,549</u>	<u>\$ 941,538</u>

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

State of New Mexico
School for the Deaf

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE E – CAPITAL ASSETS

Capital assets as detailed below are stated at cost, or if contributed, at fair market value at the date of gift. Changes in capital asset balances for the year ended June 30, 2008 and 2007 were as follows:

Asset Description	2008				Balance at 6/30/2008
	Balance at 6/30/2007	Current Year Additions	Current Year Deletions	Reclass	
Non-Depreciable					
Construction in progress	\$ 5,814,448	\$ 1,278,865	\$ -	\$ (5,814,448)	\$ 1,278,865
Land and improvements	396,866	-	-	-	396,866
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	21,291,013	278,457	35,789	5,814,448	27,348,129
Equipment and furniture	882,030	104,416	8,716	-	977,730
Computers	694,967	65,181	154,516	-	605,632
Automotive equipment	727,958	331,155	218,048	-	841,065
Capital assets	30,016,832	2,058,074	417,069	-	31,657,837
Accumulated depreciation					
Buildings	11,068,943	729,904	35,789	-	11,763,058
Equipment and furniture	638,744	71,997	8,716	-	702,025
Computers	633,024	52,685	154,516	-	531,193
Automotive equipment	572,671	65,405	218,048	-	420,028
Total accumulated depreciation	12,913,382	919,991	417,069	-	13,416,304
Total capital assets	<u>\$ 17,103,450</u>	<u>\$ 1,138,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,241,533</u>

State of New Mexico
School for the Deaf

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE E – CAPITAL ASSETS – CONTINUED

Asset Description	2007				
	Balance at 6/30/2006	Prior Period Adjustment	Current Year Additions	Deletions	Balance at 6/30/2007
Non-Depreciable					
Construction in progress	\$ 770,172	\$ -	\$ 5,044,276	\$ -	\$ 5,814,448
Land and improvements	396,866	-	-	-	396,866
Artworks	209,550	-	-	-	209,550
Depreciable					
Buildings	21,291,013	-	-	-	21,291,013
Equipment and furniture	918,939	(51,448)	14,539	-	882,030
Computers	740,103	(51,062)	5,926	-	694,967
Automotive equipment	621,348	-	106,610	-	727,958
Capital assets	24,947,991	(102,510)	5,171,351	-	30,016,832
Accumulated depreciation					
Buildings	10,364,092	-	704,851	-	11,068,943
Equipment and furniture	561,019	(7,163)	84,888	-	638,744
Computers	580,575	(9,779)	62,228	-	633,024
Automotive equipment	545,235	-	27,436	-	572,671
Total accumulated depreciation	12,050,921	(16,942)	879,403	-	12,913,382
Total capital assets	<u>\$ 12,897,070</u>	<u>\$ (85,568)</u>	<u>\$ 4,291,948</u>	<u>\$ -</u>	<u>\$ 17,103,450</u>

NOTE F – LONG TERM LIABILITIES

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

	2007	Increase	Decrease	2008
Accrued sick leave	\$ 35,290	\$ 17,964	\$ 27,664	\$ 25,590
Accrued annual leave payable	131,035	121,124	113,502	138,657
Total accrued compensated absences	<u>\$ 166,325</u>	<u>\$ 139,088</u>	<u>\$ 141,166</u>	<u>\$ 164,247</u>

Amounts due within one year for the years ended June 30, 2008 is \$125,864. Current operations liquidate compensated absences liabilities.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE G – RETIREMENT AND BENEFIT PROGRAMS

The School offers three retirement plans:

1. Educational Retirement Act

Plan description: Substantially all of the School's employees who are certified school instructors participate in a public employee retirement system authorized under the Educational Retirement Act (ERA) of the State of New Mexico (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer-defined benefit retirement plan. The plan provides for retirement benefits, disability benefits and cost-of-living adjustments to plan members and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERB; P.O. Box 26129, Santa Fe, New Mexico 87502-1029. The report is also available on ERB's website at www.nmerb.org.

Funding policy: Plan Members are required to contribute 7.42% of their gross salary. The School is required to contribute 10.9% of the gross covered salary. Effective July 1, 2008, Plan members are required to contribute 7.9% of their gross salary. The employer contribution will increase .75% each year until July 1, 2011, when the employer contribution will be 13.9%. The contribution requirements of plan members and the School are established in State Statute under Chapter 22, Article 11 NMSA 1978. The contribution requirements may be amended by acts of the legislature. The School's contribution to the ERB for the years ended June 30, 2008, 2007, and 2006 were \$362,768, \$313,116, and \$296,146, respectively, which equals the amount of required contributions for each fiscal year.

2. PERA Retirement Plan

Plan description: Substantially all of the School's full-time non-educational employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees' Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries.

PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

2. PERA Retirement Plan – Continued

Fund policy: Plan members are required to contribute 7.42% of their gross pay. The School is required to contribute 16.59% of gross covered salary.

The contribution requirements of plan members and the NMSD are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature.

The contributions to PERA for the years ended June 30, 2008, 2007, and 2006, were \$632,962, \$587,435, and \$546,389, respectively, which equals the amount of the required contributions for each fiscal year.

3. IRC 125 – Cafeteria Plan

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

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

The School is the plan administrator.

4. Tax Sheltered Annuity

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

5. Post Employment Benefits – State Retiree Health Care Plan

Plan description. The School 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.

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.

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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE G – RETIREMENT AND BENEFIT PROGRAMS – CONTINUED

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

Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The School's contributions to the RHCA for the year ended June 30, 2008, 2007, and 2006 were \$44,552, \$40,739, and \$40,227, respectively, which equal the required contributions for each year.

6. Adoption of GASB No. 45

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions*, was adopted by the School for the year ended June 30, 2008.

The Plan administered by the New Mexico Retiree Health Care Authority is a cost-sharing multiple employer plan as defined in GASB 45. Cost-sharing employers such as the School are required to recognize other post employment benefit expense on the accrual basis or modified accrual of accounting for their contractually required contributions. Contributions are set by legislation and are not based on actuarial calculation. The legislature periodically reviews the contribution rates pursuant to 10-7c-156 NMSA 1978. The effects of GASB 45 are not significantly different from the previous pay as you go requirement for monthly contributions. Required disclosures of GASB 45 are contained in this footnote and note G5.

NOTE H – COMMITMENTS

Construction commitments and financing:

During 2007, the School has entered into a contract with Blue Sky Builders for the renovation of the new Hester Hall. As of this report date, this project is considered complete and is included in buildings for capital assets reporting. The project is being funded by general obligation bonds issued pursuant to House Bill 294 of the 47th Legislature, Second Session 2004.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE H – COMMITMENTS – CONTINUED

During 2008, the School has entered into a contract with McDade-Woodcock, Inc. for a utility upgrade for the entire school. As of this report date, this project was still under construction and is expected to be completed during fiscal year 2009. The project is being funded by severance tax bonds issued pursuant to Laws of 2007, Chapter 42, Section 11. The amount of the project is \$1,600,000.

NOTE I – CONTINGENT LIABILITIES

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

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

NOTE J – JOINT POWERS AGREEMENTS

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

Albuquerque Public Schools
Gadsden Independent Schools
Rio Rancho Public Schools
Santa Fe Public Schools

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE K – PRIOR PERIOD ADJUSTMENT

Per section 12-6-10 NMSA 1978 the capitalization threshold was raised to \$5,000 effective for fiscal year 2006. After 2005, capital assets acquired costing less than \$5,000 are not capitalized per statute. The School has continued to capitalize assets costing less than \$5,000 believing a lower threshold provided greater stewardship. The prior period adjustment removes capitalized items below the threshold for 2006 and 2007 to conform to statute and to be consistent with all other state agencies. Capital assets and 2007 beginning net assets in capital assets were decreased by \$85,568 to reflect net assets decrease for 2006. Capital assets additions for 2007 were decreased by \$128,353 for a total decrease to net assets of \$210,921. Depreciation for 2007 was lowered by \$12,991.

NOTE L – LAND HOLDINGS NOT RECORDED

During the year, the School negotiated to sell certain land as part of its intent to provide affordable housing to parents of students of the School. The subject land is part of the Dairy land tract which consists of 261 acres on the Westside of Santa Fe near Airport Road and Cerrillos. 6.2 acres of this land was sold subsequent to year-end for \$600,000. This land has not been recorded on the books. The land was acquired from the expiration of a federal land patent in favor of the School first acquired in 1957 and from transactions with individuals in 1958 and 1959. Historical cost records of acquisition cost and other transaction details were not available during the audit. A further review of all operations involving land revealed two tracts of land in the Albuquerque area, the Hermosa property which houses preschool activity and the Westside property consisting of 12 acres that are not recorded. Historical cost records of acquisition prices and other transaction detail were not available during the audit. Management will appraise the land and determine the appropriate acquisition cost, if any, for each property. Management estimates the completion of this process during fiscal year 2009. Capital assets and net assets is expected to increase by an undetermined amount of the unrecorded land when final data is available.

NOTE M – BONDS

1. Bonds Restatement

The School has periodically received severance tax and general obligation bonds appropriations for capital asset projects on the campus of the School. All bond issues must be successfully sold and are drawn down by the School upon the presentation of support and cost documentation of related construction activity that is approved by the Board of Finance. Previously, bonds were recorded as revenue upon their sale with a corresponding account receivable.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE M – BONDS - CONTINUED

1. Bonds Restatement - Continued

Bond accounting for the State of New Mexico is changed for fiscal year 2008; the new method conforms to DFA instructions based on Governmental Accounting Standards No. 33. Bond revenue is now recorded only when eligibility requirements have been met. The eligibility requirements for capital projects financed by bonds are satisfied when all required documentation to support a draw down of a bond funds is submitted and approved by the Board of Finance. Accordingly, amounts in fund balance from past sales of bonds not yet drawn are reclassified out of accounts receivable against fund balance. The effects on the 2007 financial statements are as follows:

Decrease to beginning net assets	<u>\$ (5,962,478)</u>
Decrease to 2007 accounts receivable	<u>\$ (14,596,090)</u>
Decrease to bond proceeds appropriation	<u>\$ (8,771,956)</u>

2. Bond Projects

\$6,000,000 was awarded to the School for the construction of Hester Hall (House Bill 294, Laws 2004) 85% of bond proceeds must be spent within 3 years of certification. The School drew the full available amount in 2008 and 2007 and recorded the building amount out of construction in progress in the current year. General Obligation Bond and Severance Tax Bond Funds became available to the School in the amount of \$12,500,000, pursuant to Laws of 2006, Chapter 108 and Laws of 2007, Chapter 42, for the construction of Conner Hall and other upgrade projects on campus. The utility upgrade project construction started in the current year.

NOTE N – INTERAGENCY TRANSFERS

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

Appropriations, Laws 2007, Section 4 and special appropriations as detailed in Schedule 8	<u>\$ 4,314,220</u>
Bond Proceed Appropriations – Approved draws, Laws 2007, Chapter 42 and Laws 2004, Chapter 117	<u>\$ 2,995,780</u>

SUPPLEMENTARY INFORMATION

State of New Mexico
School for the Deaf

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

For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
State general fund appropriations	\$ 4,314,220	\$ 4,314,220	\$ 4,314,220	\$ -
Land and permanent funds	9,800,000	9,800,000	10,086,766	286,766
Federal revenue sources	278,569	278,569	215,153	(63,416)
Joint powers agreements	166,000	166,000	121,280	(44,720)
Bond proceeds	12,500,000	12,500,000	2,995,780	(9,504,220)
Other sources	777,326	777,326	659,027	(118,299)
	<u>27,836,115</u>	<u>27,836,115</u>	<u>18,392,226</u>	<u>(9,443,889)</u>
Total revenues			18,392,226	
Revenues per GAAP basis			<u>18,392,226</u>	
			-	
EXPENDITURES				
Instruction and general:				
Instruction	3,272,711	3,212,711	2,753,879	458,832
Academic support	3,570,508	3,467,430	3,194,053	273,377
Institutional support	2,003,302	1,935,816	1,861,566	74,250
Operation and maintenance of plant	2,043,856	2,019,527	1,816,968	202,559
Student services	2,401,135	2,356,576	2,260,968	95,608
Public service	739,481	739,481	439,646	299,835
Capital outlay	13,000,000	13,959,276	2,520,816	11,438,460
Renewals and replacements	750,439	750,439	575,598	174,841
	<u>27,781,432</u>	<u>28,441,256</u>	<u>15,423,494</u>	<u>13,017,762</u>
Total instruction and general expenditures			15,423,494	13,017,762
TRANSFERS				
Transfers in	1,750,440	2,049,892	2,049,892	-
Transfers out	(1,750,440)	(2,049,892)	(2,049,892)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers			-	-
Fund balance budgeted	\$ 54,683	\$ 605,141		\$ 3,573,873
Changes in net assets (budgetary basis)			2,968,732	
Capital outlay - construction in progress			1,278,865	
Depreciation			<u>(919,991)</u>	
Change in net assets - GAAP basis			<u>\$ 3,327,606</u>	

State of New Mexico
School for the Deaf

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

For the year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
Bond proceeds	\$ 12,500,000	\$ 12,500,000	\$ 2,995,780	\$ (9,504,220)
Interest Income	291,163	291,163	40,594	(250,569)
Sales and services	10,000	10,000	73,872	63,872
Other sources	-	-	-	-
	<u>12,801,163</u>	<u>12,801,163</u>	<u>3,110,246</u>	<u>(9,690,917)</u>
EXPENDITURES				
Instruction and general:				
Public service	739,481	739,481	439,646	299,835
Capital outlay	13,000,000	13,959,276	2,520,816	11,438,460
Renewals and replacements	750,439	750,439	575,598	174,841
	<u>14,489,920</u>	<u>15,449,196</u>	<u>3,536,060</u>	<u>11,913,136</u>
TRANSFERS				
Transfers in	1,750,440	2,049,892	2,049,892	-
Transfers out	-	-	-	-
	<u>1,750,440</u>	<u>2,049,892</u>	<u>2,049,892</u>	<u>-</u>
Fund balance budgeted	<u>\$ 61,683</u>	<u>\$ 598,141</u>		<u>\$ 2,222,219</u>
Changes in net assets (budgetary basis)			<u>\$ 1,624,078</u>	

State of New Mexico
School for the Deaf

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

For the year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
State appropriations	\$ 4,314,220	\$ 4,314,220	\$ 4,314,220	\$ -
Endowments and land permanent funds	9,800,000	9,800,000	10,086,766	286,766
Other sources	476,163	476,163	544,561	68,398
	<u>14,590,383</u>	<u>14,590,383</u>	<u>14,945,547</u>	<u>355,164</u>
EXPENDITURES				
Instruction and general:				
Academic support	3,570,508	3,467,430	3,194,053	273,377
Instruction	2,828,142	2,768,142	2,421,203	346,939
Institutional support	2,003,302	1,935,816	1,861,566	74,250
Operation and maintenance of plant	2,043,856	2,019,527	1,816,968	202,559
Student services	2,401,135	2,356,576	2,260,968	95,608
	<u>12,846,943</u>	<u>12,547,491</u>	<u>11,554,758</u>	<u>992,733</u>
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	(1,750,440)	(2,049,892)	(2,049,892)	-
	<u>(1,750,440)</u>	<u>(2,049,892)</u>	<u>(2,049,892)</u>	<u>-</u>
Total transfers	<u>(1,750,440)</u>	<u>(2,049,892)</u>	<u>(2,049,892)</u>	<u>-</u>
Fund balance budgeted	<u>\$ (7,000)</u>	<u>\$ (7,000)</u>		<u>\$ 1,347,897</u>
Changes in net assets (budgetary basis)			<u>\$ 1,340,897</u>	

State of New Mexico
School for the Deaf

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

For the year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
Federal revenue sources	\$ 278,569	\$ 278,569	\$ 215,153	\$ (63,416)
Joint powers agreements	166,000	166,000	121,280	(44,720)
Total revenues	444,569	444,569	336,433	(108,136)
EXPENDITURES				
Instruction and general:				
Instruction	444,569	444,569	332,676	111,893
Public service	-	-	-	-
Total instruction and general expenditures	444,569	444,569	332,676	111,893
TRANSFERS				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total transfers	-	-	-	-
Cash balance budgeted	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 3,757</u>
Changes in net assets (budgetary basis)			<u>\$ 3,757</u>	

State of New Mexico
School for the Deaf

SCHEDULE OF CASH AND INVESTMENTS

June 30, 2007

	First Community Bank	First National Bank of Santa Fe	State Treasurer's Office	Total
CASH				
Operational checking	\$ 3,177,124	\$ -	\$ -	\$ 3,177,124
Less outstanding checks	(1,424,102)	-	-	(1,424,102)
Plus petty cash	3,200	-	-	3,200
	<u>\$ 1,756,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,756,222</u>
INVESTMENTS				
Certificate of deposits	\$ 279,342	\$ 2,000	\$ -	\$ 281,342
Local gov. inv. pool	-	-	5,932,068	5,932,068
	<u>\$ 279,342</u>	<u>\$ 2,000</u>	<u>\$ 5,932,068</u>	<u>\$ 6,213,410</u>

State of New Mexico
School for the Deaf

SCHEDULE OF PLEDGED COLLATERAL REQUIREMENTS

June 30, 2008

	First Community Bank	First National Bank of Santa Fe	Total
	<u> </u>	<u> </u>	<u> </u>
Total bank balance - demand deposits	\$ 3,177,124	\$ -	\$ 3,177,124
Less FDIC coverage	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Uninsured balance of demand deposits	3,077,124	-	3,077,124
Total bank balance - time and savings deposits	279,342	2,000	281,342
Less FDIC coverage	<u>(100,000)</u>	<u>(2,000)</u>	<u>(102,000)</u>
Uninsured balance of time and savings deposits	<u>179,342</u>	<u>-</u>	<u>179,342</u>
Total uninsured bank balance	<u>3,256,466</u>	<u>-</u>	<u>3,256,466</u>
Collateralization requirement (50%)	1,628,233	-	1,628,233
Pledged securities:			
FNMA CUSIP# 31339YVW1 (par value which approximates market value)	50,000	-	50,000
FNMA CUSIP# 3133X4ZC8 (par value which approximates market value)	160,000	-	160,000
FNMA CUSIP# 31389KJ77 (par value which approximates market value)	228,113	-	228,113
FNMA CUSIP# 31394DX968 (par value which approximates market value)	1,119,524	-	1,119,524
FNMA CUSIP# 31394CLX8 (par value which approximates market value)	<u>1,790,448</u>	<u>-</u>	<u>1,790,448</u>
Amount over (under) collateralized	<u>\$ 1,719,852</u>	<u>\$ -</u>	<u>\$ 1,719,852</u>

The custodian is First Community Bank. The location of safekeeping collateral is Santa Fe, New Mexico.

State of New Mexico
School for the Deaf

SCHEDULE OF BONDS

June 30, 2008

<u>Chapter</u>	<u>Laws</u>	<u>Term End</u>	<u>Type of Bond</u>	<u>Bonds Appropriated</u>	<u>Bonds Sold to Date</u>	<u>Bonds Unsold</u>
117	2004	2008	General Obligation	\$ 6,000,000	\$ 6,000,000	\$ -
108	2006	2010	General Obligation	7,000,000	7,000,000	-
42	2007	2011	Severance Tax	5,500,000	5,500,000	-
92	2008	2012	Severance Tax	2,700,000	-	2,700,000
92	2008	2012	Severance Tax	425,000	-	425,000
80	2008	2012	General Obligation	3,000,000	-	3,000,000
				<u>\$ 24,625,000</u>	<u>\$ 18,500,000</u>	<u>\$ 6,125,000</u>

SCHEDULE 7

<u>Amount Available</u>	<u>Art in Public Places</u>	<u>Expenditures Prior Years</u>	<u>Expenditures Current Year</u>	<u>Total Expenditures</u>	<u>Amount Remaining</u>	<u>Reversions Current Year</u>
\$ 6,000,000	\$ 60,000	\$ 3,903,913	\$ 2,036,087	\$ 5,940,000	\$ -	\$ -
7,000,000	70,000	-	-	-	6,930,000	-
-	-	-	959,693	959,693	4,513,307	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 13,000,000</u>	<u>\$ 130,000</u>	<u>\$ 3,903,913</u>	<u>\$ 2,995,780</u>	<u>\$ 6,899,693</u>	<u>\$ 11,443,307</u>	<u>\$ -</u>

State of New Mexico
School for the Deaf

SCHEDULE OF APPROPRIATIONS

June 30, 2008

Description	Authority	Appropriation Period	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Prior Year Reversion Amount	Current Year Reversion Amount	Unencumbered Balance
GENERAL FUND								
General Operation	Ch , Sec 4, Laws 2007	2008	\$ 3,156,000	\$ -	\$ 3,156,000	\$ -	\$ -	\$ -
Total General Fund			3,156,000	-	3,156,000	-	-	-
SPECIAL APPROPRIATIONS								
Salary and retirement increases	Ch 28, Sec 8, Laws 2007	2008	439,800	-	439,800	-	-	-
Repairs and maintenance	Ch 28, Sec 5, Laws 2007	2007 - 2008	443,420	-	443,420	-	-	-
Statewide outreach	Ch 21, Sec 44, Laws 2007	2008	275,000	-	275,000	-	-	-
Total Special Appropriations			1,158,220	-	1,158,220	-	-	-
Total - All Appropriations			\$ 4,314,220	\$ -	\$ 4,314,220	\$ -	\$ -	\$ -

State of New Mexico
School for the Deaf**SCHEDULE OF JOINT POWERS AGREEMENTS**

June 30, 2008

- 1) Participant: Albuquerque Public Schools (APS)
Party responsible for operations: NMSFD
Purpose: Student Placement
Dates of Agreement: 7/1/07-6/30/08
Total estimated amount of project: Dependent upon number of students transferred
Amount agency contributed in the fiscal year: \$61,280
Audit responsibility: NMSFD
Fiscal agent: NMSFD
Agency where revenues/expenditures are reported: APS & NMSFD
- 2) Participant: Gadsden Independent Schools (GIS)
Party responsible for operations: NMSFD
Purpose: Educational services
Dates of Agreement: 7/1/07-6/30/08
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$7,500
Audit responsibility: NMSFD
Fiscal agent: NMSFD
Agency where revenues/expenditures are reported: GIS & NMSFD
- 3) Participant: Rio Rancho Public Schools (RRPS)
Party responsible for operations: NMSFD
Purpose: Educational services
Dates of Agreement: 7/1/07-6/30/08
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$15,000
Audit responsibility: NMSFD
Fiscal agent: NMSFD
Agency where revenues/expenditures are reported: RRPS & NMSFD
- 4) Participant: Santa Fe Public Schools (SFPS)
Party responsible for operations: NMSFD
Purpose: Educational services
Dates of Agreement: 7/1/07-6/30/08
Total estimated amount of project: Dependent upon number of students
Amount agency contributed in the fiscal year: \$37,500
Audit responsibility: NMSFD
Fiscal agent: NMSFD
Agency where revenues/expenditures are reported: SFPS & NMSFD



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

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

We have audited the financial statements of the business-type activities of the New Mexico School for the Deaf (School) as of and for the year ended June 30, 2008 and 2007 as listed in the table of contents. We have also audited the budgetary comparison statements, listed as schedules 1, 2, 3, and 4, presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2008 and 2007 as listed in the table of contents and have issued our report thereon dated November 3, 2008. The report was qualified as the adjustment needed to record certain land assets of the School could not be determined. Except as discussed in the preceding sentence, we conducted our audits in accordance with auditing standards general accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses, listed as 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards* Paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and responses as items 07-01, 08-03, and 08-04.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the School, the Board of Regents, the State Auditor, the New Mexico Legislature, the New Mexico Higher Education Department, the New Mexico Public Education Department, the Department of Finance and Administration and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 3, 2008

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2008 and 2007

FINANCIAL STATEMENTS

Type of auditor's report issued: Qualified with an exception for incomplete land recorded

Internal control over financial reporting:

Material weakness identified? Yes

Significant deficiencies identified not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

FINANCIAL STATEMENT FINDINGS

08-01 Physical inventory over capital assets (Significant deficiency)

08-02 Real property not properly recorded (Material Weakness)

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

07-01 Inventory not properly valued

08-03 Capital assets – capitalization threshold

08-04 Certification of hard drive erasure not completed

PRIOR YEAR FINDINGS

07-01 Inventory not properly valued – modified and repeated

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2008 and 2007

I. STATUS OF PRIOR YEAR AUDIT FINDINGS

<u>FINDING</u>	<u>STATUS</u>
07-01 Inventory not properly valued	Repeated and modified (07-01)

II. CURRENT YEAR FINDINGS

08-01 – PHYSICAL INVENTORY OVER CAPITAL ASSETS (SIGNIFICANT DEFICIENCY)

Statement of Condition:

The School did not conduct a physical inventory of capital assets during fiscal year 2008.

Criteria:

Section, 12-6-10, NMSA 1978, requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency's auditors.

Cause:

The School did not implement the State Auditor requirement to conduct physical inventory of capital assets.

Effect:

If physical inventories are not conducted, capital assets are more susceptible to loss and financial statement capital assets may not be correctly stated.

Recommendation:

We recommend the School conduct physical inventories of capital assets on an annual basis in accordance with the criteria above.

Management's Response:

Staff will perform a physical inventory audit in December 2008 and June 2009.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2008 and 2007

II. CURRENT YEAR FINDINGS – CONTINUED

08-02 – REAL PROPERTY NOT PROPERLY RECORDED (MATERIAL WEAKNESS)

Statement of Condition:

The School owns multiple real estate properties that are not recorded in the accounting records. The school has 261 acres in Santa Fe and over 12 acres in Albuquerque not recorded.

Criteria:

Model Accounting Practices, FIN 6.5 and generally accepted accounting principles requires agencies to record and report state owned capital assets in accordance with state statutes.

Cause:

A significant portion of the land was acquired 47-49 years ago. The School did not know how to record donated properties and management apparently does not have any record of the campus land purchased in the past due to the length of time since acquisition. More recent land acquisitions were not recorded due to error.

Effect:

As real property is not listed in the accounting records, the property is more susceptible to unauthorized activity. Financial statements of the School are understated for capital assets-land, which may affect decision making.

Recommendation:

We recommend management conduct a complete inventory of all property owned and record the property in the accounting records based on estimated values. GASB 34 methodology for replacement/appraisal and discounting of real estate can be used to estimate properties.

Management's Response:

NMSD is in the process of hiring an appraiser to conduct an appraisal for all real property owned by the School. Process will start in January 2009.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2008 and 2007

II. CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

07-01 – INVENTORY NOT PROPERLY VALUED (MODIFIED AND REPEATED)

Statement of Condition:

Inventory valuation was not correct due to the following:

- Proper units of measure were not used when extending inventory costs (i.e. per unit versus per case) for certain items.
- Inventory purchase amounts were not properly updated in the accounting software for certain items.

The difference we observed were in relation to dining hall inventories. Central supply inventories were valued correctly.

Criteria:

Model Accounting Practices, FIN 10.6, states that the cost of the last items purchased and on hand for the valuation of each inventory item should be value for ending inventory for entities using the FIFO (first-in, first-out) method. In addition, the cost of certain items should be broken out according to the appropriate unit of measure being used.

Cause:

The cost of inventory was not updated to the latest purchased cost in the accounting software. Additionally, the unit of measure was not updated for certain items (i.e. inventory quantity was on a per case basis while the cost was on a per unit basis). This affected certain inventory items.

Effect:

Inventory is likely understated by \$6,800.

Recommendation:

We recommend that proper training for all users be implemented for use of the new inventory software – Peachtree. In addition, we recommend that a process be implemented that will ensure that the proper costs and units of measure are being correctly recorded in Peachtree.

Management's Response:

Central Supply currently has an inventory control system which has been used since the beginning of the fiscal year. Staff continues to use Peachtree Accounting for this function and performs an inventory physical count each quarter.

The variance was not related to Central Supply, but Dining Hall operations. Dining Hall just started to use Peachtree Accounting and quarterly inventory audits will be performed. Also, the Supervisor of Dining Hall operations is currently being trained to use the software program.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2008 and 2007

II. CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

08-03 – CAPITAL ASSETS – CAPITALIZATION THRESHOLD

Statement of Condition:

The School's capitalization threshold policy of \$1,000 was not amended once the statewide capitalization policy rose to \$5,000 effective June 17, 2005. Assets under \$5,000 were capitalized in 2007 and 2006 totaling \$210,921.

Criteria:

During the 2005 Regular Legislative Session, the Legislature enacted HB 1074 amending section 12-6-10, NMSA 1978, changing the capitalization threshold from \$1,000 to \$5,000. The amendment was effective June 17, 2005.

Cause:

The School thought it could institute a more restrictive policy and still be in compliance with the state statute.

Effect:

The School's capital asset and depreciation schedules reported on the financial statement were not comparable with other state agencies' capital assets and depreciation schedules in fiscal years subsequent to June 17, 2005. Prior period adjustments had to be recorded in the current fiscal year in order to correct the fixed asset and accumulated depreciation account balances.

Recommendation:

We recommend the School amend its capitalization threshold policy to \$5,000 and maintain a separate accountability listing of capital assets purchased below the minimum threshold.

Management's Response:

The threshold has been changed to \$5,000 and reports will be generated for those above \$5,000 and those between \$1,000 and \$4,999. Jenzabar has the capability to separate the two.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2008 and 2007

II. CURRENT YEAR FINDINGS – CONTINUED

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

08-04 – CERTIFICATION OF HARD DRIVE ERASURE NOT COMPLETED

Statement of Condition:

During fiscal year 2008, the School did not certify in writing the proper erasure of the hard drives and submit the certification along with the notification of the proposed disposition of computer equipment.

Criteria:

According to 2.2.2.10 NMAC Section V item (3), agencies must certify in writing the proper erasure of the hard drive and submit the certification along with the notification of the proposed disposition of property to the Office of the State Auditor at least thirty days prior to taking action.

Cause:

The School was not aware of the requirement.

Effect:

The Office of the State Auditor was not informed that hard drive data had been properly erased. All possible steps to document that data was made unavailable to unauthorized persons were not taken.

Recommendation:

We recommend the School follow applicable compliance requirements for future disposals of computer equipment.

Management's Response:

Per NMSD's Information Technology Manager, the hard drives were erased; however, certification will be generated to meet the compliance requirements.

State of New Mexico
School for the Deaf

EXIT CONFERENCE

An exit conference was held at the New Mexico School for the Deaf campus on November 14, 2008, with the following individuals in attendance:

New Mexico School for the Deaf

Mark Apodaca
Angela Lucero
Ronald Stern
Lynann Barbere

Director of Business and Finance
Accounting Supervisor
Superintendent
Board Secretary/Treasurer

Atkinson & Co., Ltd.

Martin Mathisen, CPA
David Thomas, CPA

Audit Director
Audit Senior

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

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